National Defence
Minister's Advisory Committee
on Administrative Efficiency

Défense nationale
Comité consultatif du Ministre
sur l'efficacité administrative

Achieving Administrative Efficiency

Report to the
Minister of National Defence

by the

Advisory Committee on Administrative Efficiency

August 21, 2003

Executive Summary

As the Minister of National Defence's Advisory Committee on Administ Efficiency undertook its review of the Department of National Defence (DND) a Canadian Forces (CF) in February 2003, it was clear to the Committee that Canada's armed forces and the Department of National Defence are in a period of transition.

In the last ten years of the last century, the potentially very dangerous but relatively stable security environment of the Cold War that had shaped Canada's defence efforts for some 40 years was replaced by a more uncertain and unpredictable world. Since then, the attacks on the United States on September 11, 2001 and subsequent attacks in Bali, Indonesia and elsewhere, have reinforced this new reality, heightening awareness and concerns regarding the threat of international terrorism.

Over the same period, the dramatic rate of technological change and growth of information technology have had, and continue to have, a profound impact on organizations, creating 'revolutions' in governance and accountability in military and business affairs. These revolutions are fundamentally changing the way in which information and large organizations are managed and the manner in which they are held to account, creating both opportunities and challenges for DND and the CF.

Globally, Canada's principal allies, the United States, the United Kingdom and the North Atlantic Treaty Organization have all embarked on defence transformation strategies, developing new military capabilities to respond to the changing technological and security environment. In this regard, the Committee read, with great interest, the 2002-2003 Annual Report of the Chief of the Defence Staff, entitled *A Time for Transformation* in which he stated that "the question for Canada is not whether to transform the Canadian Forces, it is how best to achieve the required transformation."

In approaching its mandate, the Committee was keenly aware of this broader transformation challenge. Indeed, the wide range of forces shaping Defence[1] compelled the Committee to question, as part of its review, whether Defence is properly structured to effect the necessary transformation.

Effective management is one of the cornerstones of efficient administration in any organization. For Defence, a sound management framework is both essential and challenging. The powers, duties and functions relating to Defence are drawn from the *National Defence Act* and are presided over by the Minister and the Chief of the Defence Staff. for the CF. The powers, duties and functions for the DND, the civilian component of Defence are drawn from several other Acts of Parliament, including the *Financial Administration Act*, the *Public Service Employment Act* and others. The upshot of this is that Defence is a large and complex organization, administered through a single integrated national headquarters. Together DND and the CF deliver on a difficult mission, namely to defend Canada and Canadian interests and values, while contributing to international peace and security.

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[1] For brevity the term 'Defence' is used in this report to identify the Department of National Defence and the Canadian Forces. Where the report refers to 'the Department' (DND) or 'the Canadian Forces' (CF) alone this indicates that the observation relates primarily to the organization under reference.

However, because of the nature of military affairs and given that Canada is a democracy, operations and the requirement to manage public issues frequently capture decision-making, and thus demand a great deal of time and energy from Defence decision-makers and their supporting structures. Within this reality, Defence decision-makers often focus on their day-to-day activities rather than longer-term, strategic issues. Defence administration and business processes must also be designed to enable and contribute to the production of Canada's military capabilities and operations.

As the Committee conducted its review, it was very clear that it could not treat Defence as just another department in government, or as a large private sector organization. Consequently, the Committee was careful to avoid putting forward any recommendations which would, in any way, hinder the Canadian Forces' ability to fulfil their mandate and deliver on their operational missions and tasks.

The Committee also recognized that Defence has spent the past decade operating in an environment of resource scarcity, and that many of the current procedures and much of the overall governance culture should be viewed as a response to this environment. Indeed, when coupled with recent Budget increases, many of the initiatives currently underway within the Department and the CF reflect an internal effort to move beyond that environment in order to put Defence on a sustainable footing and to better position the institution for the medium to longer term.

Against this backdrop, and supported by a small full-time staff, the Committee has completed a six-month review of the administrative efficiency of DND and the CF, focusing primarily on National Defence Headquarters (NDHQ) and the procurement process, in accordance with the mandate given to it by the Minister of National Defence on January 30, 2003. Throughout this review, the talent and commitment of the senior management team of the Department and the Canadian Forces have left a strong impression on the Committee. These dedicated Canadians have played important roles leading Defence through some very difficult times in which resources have been scarce and operational demands high. Their contribution to the Committee's study was invaluable. The Committee has relied heavily on their expertise and benefited from its consultations with them. However, it should be emphasized that the observations and recommendations that follow are those of the Committee, and do not necessarily reflect the views of those consulted.

General Observations

Among the Committee's earliest findings was that there are very few areas of the management and administration of Defence that have not already been studied by others. Many opportunities for improved efficiency have already been pursued, others have been identified, and good work is currently underway in a number of areas to make improvements. The Committee sees this work as a credit to the senior management team, members of the Canadian Forces and National Defence employees. Wherever possible, the Committee has sought to reinforce these efforts. However, the Committee also encountered many areas where clear inefficiencies exist and have gone unchecked, or where identified opportunities to improve efficiency were not implemented. Without prejudice to those who have been responsible for the stewardship of Defence in recent years, the Committee firmly believes that more can be done to improve efficiency.

The Report that follows fulfills the Committee's mandate to review the administrative efficiency of Defence. It also goes further to suggest that the institution is not well positioned, from a management perspective, to meet the strategic-level challenges it is facing. The Committee believes that, without a fundamental transformation of the national-level management framework and practices of the Department of National Defence and the Canadian Forces, the CF will not be able to transform itself rapidly enough to adapt to Canada's changing security environment. That essential management transformation should begin immediately.

To be successful, this transformation must address four overarching management challenges that the Committee identified as characterizing Defence's current management approach. These management problems appeared throughout the Committee's consultations and deliberations, and are reflected in both the key findings and recommendations:

- **management focus is more transactional than strategic** – where a transactional culture pervades NDHQ that allows the management of a multitude of more routine issues to 'box in' or to even overcome the consideration of many of the more difficult strategic issues, which then tend to either get deferred or even pushed aside;
- **accountabilities[2] are too diffuse** – with insufficient attention paid to the identification, assignment and enforcement of senior management accountabilities and, consequently, Defence relies extensively on consensus as a decision-making philosophy;
- **risk tolerance is too low[3]** - there is a cultural aversion to programmatic risk and, as a result, resistance to all but the most incremental change; and
- **core competencies are not clearly identified** - Defence has not been successful in identifying activities and functions which are core to the Defence mission, resulting in both military and civilian personnel often being sub-optimally employed on non-core activities.

The Committee believes that fundamental improvements to the overall approach to governance and strategic management of Defence and its $13 billion budget will result in very significant savings. While this result cannot be easily quantified, it includes the potential for large-scale savings in dollars, personnel and time. The changes proposed in this Report will also result in increased strategic focus and enhanced decision-making, the long-term impacts of which are fundamental to Defence achieving its transformational goals. If the national-level management framework of Defence is transformed in accordance with the spirit and specifics of the recommendations contained in this Report, the Committee is convinced that significant efficiencies and savings will accrue.

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[2] The term 'accountabilities' is used throughout the Report to refer to accountabilities, responsibilities and authorities.

[3] This observation does not apply to risk in the context of military operations, as this area was considered to be outside of the Committee's mandate.

These savings will come from:

- greatly increased unity of effort and improved decision-making, will result in the elimination of unnecessary work, and lend to increased productivity and value-for-money for Defence investments;
- a reduced requirement for personnel involved in headquarters functions, enabling military personnel and civilian personnel costs[4] to be re-invested in combat capability; and
- shortened procurement times, which will eliminate unnecessary overhead and carrying costs, will get needed equipment into service more quickly and lower actual purchase costs.

In the more immediate term, and in addition to the major savings that can be realised from implementing the foregoing transformation, the Committee identified at least $60 million that could be saved and reallocated to higher priorities, building in part on initiatives that are already underway. The Committee believes that a minimum of $100 million more in additional savings could be found in these particular areas over the longer-term. Together, reaping these savings would be a significant contribution to the Minister's goal of finding $200 million to reallocate within the Defence program. Specific recommendations[5] include:

- improved efficiencies in the procurement and provision of services in information technology, including the adoption of a common service provider in the National Capital Region (NCR), which could save **$20-30 million annually;**
- reductions in the reliance on professional service contracts which could save **$15-45 million annually**;
- reductions in travel expenditures, in part, through leveraging existing technologies, which could save **$10-30 million annually**;
- rationalizing human resource services and functions, as well as complaints and oversight organizations, which collectively could save **$5-15 million annually;**
- reductions in contractor held spare parts, which could save **$10 million annually**; and
- potential reduction in health care statutory costs, which could save **$25 million annually.**

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[4] As an example, a reduction of 1,000 civilian employees or contractors at NDHQ would make available approximately $60-$70 million in savings for re-allocation. The reduction of the military personnel at NDHQ would make these available for employment in operational forces.

[5] A list of the Committee's recommendations is at *Annex A*.

It must be emphasized that few of the potential efficiencies identified by the Committee will come to fruition if the recommendations in this report are not implemented. It is the Committee's firm view that, despite success in some areas, Defence has an inconsistent track record in implementing strategic-level change. Active leadership, along with a multi-year commitment from the Minister, the Deputy Minister (DM), the Chief of the Defence Staff (CDS) and each of the 'Level One' managers who report to them, will be essential to implementing the recommendations. The role of the Vice Chief of the Defence Staff (VCDS), as chief of staff to both the DM and the CDS for all matters that support the operations of the CF, either directly or indirectly, will also be instrumental. Much of the administrative overhead lies in these areas. A concerted effort over a five year period will be needed to ensure that efficiencies are realized, and National Defence Headquarters transformed. The Committee certainly does not question the personal commitment of the current Minister or any of the incumbents in these vital leadership roles. That being said, the Committee believes that it will be a challenge for even the most committed leadership team to implement the recommendations in this Report. As noted earlier, the Committee strongly believes implementation of its recommendations is a fundamental pre-requisite for transforming the CF.

Key Findings

In conducting its review and developing its recommendations, the Committee examined five broad areas: governance, procurement, information management and information technology, infrastructure and human resources management. Based on its mandate, the Committee concentrated primarily on NDHQ and identified a wide range of issues in each area studied. Its findings and recommendations address areas in which management practices can be enhanced and/or administrative efficiencies improved. Where the potential of specific opportunities for improved efficiency could not be determined in the time available for the Committee's work, it has offered advice on areas for further study.

Notably, the Committee's findings and recommendations do not relate to CF command and control or to the conduct of military operations, as these areas were outside of the scope of its review.[6] It is important to reiterate, however, that the Committee was keenly aware of the fact that its advice and recommendations should enhance the CF's ability to focus on military priorities, strategic capability planning and the successful conduct of military operations. Based on the Committee's consultations, observations and analyses, it concluded that a reasonably sound framework for administrative efficiency already exists at the Base or Wing level and consequently, the Committee has few other observations in this area.

Building on these general observations, the Committee has put forward a set of findings and recommendations that it believes are required to facilitate and enable the broader transformation of DND and the CF. In many areas, the Committee's recommendations reinforce positive work that is already underway within Defence to improve the institution. While these findings and recommendations are described in detail in the main body of this Report, the following provides some highlights of the main areas studied, beginning with governance, procurement, information management and civilian human resource management. Military human resource management and infrastructure are addressed in subsequent sections.

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[6] The Committee's mandate precluded it from examining issues of force structure, military capabilities and defence policy.

Governance. Defence's governance structures and culture tend to inhibit the institution from maintaining a strategic focus and achieving the commensurate depth and breadth of change:

- corporate decision-making is often more transactional than strategic, relying heavily on consensus and an extensive network of committees;
- Defence's approach to risk is undifferentiated and its tolerance too low;
- strategic planning tends to be based on a 'bottom up' as opposed to 'top down' identification of future force structure and capability requirements for the CF, which results in demands on resources over the longer term that far exceed the funds available (this approach results in the building of a Defence program that is unaffordable under planned spending levels, which in turn creates a climate of internal competition for limited resources and an ongoing crisis in managing shortfalls); and
- relatively high rates of 'churn'[7] among senior management leave the CF with many General or Flag Officers (and senior non-commissioned members) who have too little time at the strategic level before retirement to develop the depth and breadth of experience required to contribute fully to institutional leadership at the most senior levels (this also applies to some areas of the civilian executive cadre).

Procurement. Procurement is universally viewed as being a slow and cumbersome process that does not fully respond to Defence's needs:

- acquisition of major military systems takes too long, with the average being over 15 years for major capital equipment procurement;
- there is substantial duplication of effort or functional overlap between DND and the Public Works and Government Services Canada (PWGSC);
- DND's internal approval process involves excessive non-value-added review and an undifferentiated approach to risk management;
- capital projects are not always closed in a timely fashion;
- excess inventories of contractor-held spare parts result in unnecessary management and holding fees;
- there is no senior management visibility of the costs associated with supporting surplus systems and no systematic review of the disposal process;
- Defence often pays more than necessary and buys information technology and software without full visibility of its total requirements; and
- the total value of projects approved for inclusion in the long-term capital plan far exceeds available funding, yet projects included in the plan with little or no likelihood of approval consume staff resources and administrative overhead.

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[7] The term 'churn' is used to describe disruptive turnover rates of key personnel.

Information Management (IM). IM in Defence has recently undergone a thorough review, yet opportunities to improve management of information are still being missed, while too much focus is dedicated to managing information technology (IT) services in-house. In addition:

- some major changes aimed at improving the efficiency and effectiveness in IT and IM spending are being resisted or not fully supported;
- implementation of the 2002 IM Strategic Review recommendations appears to be losing momentum;
- governance of IM in Defence needs to be improved in that accountability is too diffuse and the functional authority of the IM Group is too narrow;
- in the NCR, there are inconsistent service delivery standards, poor cost and inventory visibility, duplication of effort, fragmented system design, and a high dependence on contractors; and
- opportunities for partnership with PWGSC for the delivery of IT services have not been fully pursued.

Civilian Human Resources. Like other areas of the organization, civilian human resource (HR) management is highly transactional, accountabilities in several areas are not clear, there is low risk tolerance and little to no risk management, and change has come slowly. In addition:

- governance and service delivery structures are too complex;
- Defence HR advisory and classification capacity is insufficient;
- processes are cumbersome, slow and paper-driven, with limited use of e-solutions;
- the relevance of civilian HR management is not consistently valued across the institution and there is an inadequate level of understanding of civilian HR management among military and civilian line managers and supervisors; and
- Defence is facing a very significant demographic challenge in filling civilian positions over the next 10 years for which it may not be well positioned to respond, a problem that, unless more aggressive corrective action is taken will be exacerbated due to acute problems in staffing processes unless corrective action is taken.

Key Recommendations

In each of these areas, the Committee has developed a set of action-oriented recommendations to improve efficiency and better position Defence for transformation. These recommendations are guided by several key management principles, which reflect the Committee's view that Defence must adopt a management philosophy and management structures that:

- strengthen its strategic, corporate decision-making capacity and ability to set top-down strategic direction;
- decentralize execution based on devolved authorities so that Level One managers and their subordinate commanders and managers are empowered and

accountable for managing risk and achieving results within their areas of responsibility; and
- centralize management of certain service delivery functions in IM and civilian HR management in order to capitalize on economies of scale and to ensure consistency in the provision of specialized services to managers.

Highlights of the Committee's specific recommendations are provided below.

Governance. Key governance recommendations include:

- transforming governance structures, placing corporate decision-making and issue management in the hands of a core group of senior managers whose responsibilities are pan-departmental;
- empowering managers at all levels to execute their assigned functions, enabling the DM, CDS and the core group to focus on strategic, corporate issues;
- building on existing efforts to implement a more centrally driven strategic planning model, using a common understanding of 10-15 year requirements to focus effort across Defence;
- clarifying roles and responsibilities for resource management;
- building on the CDS' efforts to identify and prepare selected military officers and non-commissioned members for institutional leadership at an earlier stage, thus replacing management 'churn' with a new culture of leadership longevity; and
- reinforcing performance management initiatives to support decision-making and enhance managerial accountability.

Procurement. Recommendation highlights include:

- the need to streamline procurement processes, in part by reducing duplication of effort between DND and PWGSC by encouraging both departments to concentrate on their respective areas of specialization (in this regard, the Minister of National Defence should consider seeking the delegation of additional contracting authorities for military unique requirements);
- supporting other efforts to reduce duplication, including the Treasury Board's 'Expenditure and Management Review' of PWGSC as it pertains to the procurement of military unique requirements;
- modifying DND's internal capital project approval process by establishing clear timelines for the review of projects, based on the Strategic Capability Investment Plan, and by better differentiating between projects based on scope, cost, and risk;
- increasing expenditure authority levels;
- ensuring timely closure of capital projects;
- reducing excess inventories held by contractors;
- disposing of major equipment in a timely and economical manner; and
- consolidating software and IT hardware requirements (through a single service provider) and using existing government-wide procurement tools instead of creating Defence specific tools.

Information Management. Key recommendations pertaining to IM include:

- fully implementing the recommendations of the IM Strategic Review in line with the IM Review Implementation Plan;
- developing and implementing the Enterprise model for IM, including completing the move to a single Enterprise Service Provider by 2004, as planned;
- addressing governance issues, and enabling service and business transformation;
- rationalizing IT services in the NCR; and
- improving cost and inventory visibility, including establishing an IT corporate account.

Civilian Human Resources. Key recommendations include:

- moving quickly to adopt and apply the changes contained in Bill C-25 to re-engineer civilian HR management;
- raising the profile and improving strategic management of the civilian human resource management function;
- rationalizing civilian HR advisory and service delivery networks;
- improving turn-around times for HR services and processes;
- simplifying, re-engineering and automating organizational design, classification and staffing processes; and
- consolidating and establishing joint management and administration among the military and civilian Human Resource management Groups in areas where they share common services, functions, and related programs.

Administrative Savings

The Committee also identified several areas where it believes Defence can take immediate action to improve efficiency and generate savings to reallocate to higher priority areas. These include:

- improving governance and the integration of complaints and grievances processes in order to improve efficiency and reduce costs, while protecting the independence of the CF Grievance Board, the CF Grievance Authority, the Ombudsman, the Military Police Complaints Commission and the Conflict Management Program;
- replacing selected professional service contractors with public servants, including the hiring of public servants with military background and experience, establishing an in-house consulting capability, and reducing reliance on contractors in a number of areas where there is the potential for employer–employee relationships;
- in consultation with other affected departments, examining the Employer Health Tax that Defence pays to four provinces for military personnel who are excluded from insured services under the *Canada Health Act*;

- reducing annual expenditures of more than $200 million on locally approved and international travel, by making greater use of improvements in technology that offer potential efficiencies through video conferencing and e-learning; and
- integrating Regular and Reserve Force pay services, bringing the Reserve Pay System on to the Defence Integrated Network (intranet) and taking further steps to automate manual paper-based administration, including electronic distribution of pay statements.

The Committee was unable, given time constraints, to fully assess potential efficiencies in every area that it examined. That said, the Committee believes potential for longer-term efficiencies exist in two key additional areas.

The first is military human resource management. The Committee endorses the recommendations of the 2000 study on *Effective Human Resource Management in the Canadian Force*s and recommends that it be fully implemented. To the maximum extent possible, the Assistant Deputy Minister (Human Resources –Military) should leverage initiatives recommended in this Report for civilian human resource management, particularly in the introduction of e-solutions to replace paper-based processes. The Department should also consider having a follow-up review of the military human resource management organization conducted early in the process of cyclical expenditure reviews.

The second is infrastructure. The Committee is of the view that opportunities exist for pursuing expanded, strategic public and private partnerships in real property management (e.g., with PWGSC) that could allow Defence to concentrate on its core mandate of delivering combat-capable military forces. The Committee is also encouraged by DND's efforts to pursue innovative methods of rationalizing property holdings through shared use and local consolidation. In this regard, the Department's proposal for the early transfer of responsibility of pre-disposal tasks, potentially to the Canada Lands Corporation, in consultation with other government departments, looks particularly promising. The Committee expects that better management of utilities to achieve a higher level of energy efficiency, including exchanging best practices across the institution and employing qualified utilities managers at the local/base level can yield additional savings. Finally, greater stability for funding infrastructure improvements should be established, especially where a business case can be made for achieving longer-term efficiencies and energy savings.

Advice on Implementation and Enabling Transformation

While the Committee recognizes that some of its recommendations may be difficult to implement and that a high level of 'change fatigue' already exists within Defence, it firmly believes that the successful implementation of this Report offers the potential for significant long-term savings and efficiencies. The Committee also believes that implementing this Report presents the Minister of National Defence, the Department and the Canadian Forces with a dual challenge. They must not only implement the Committee's recommendations to enhance management and improve efficiency, they must also transform Defence's national-level management framework and practices to support and enable the transformation of the Canadian Forces.

The issue of transformational change represents a significant challenge for any management team. All large and complex organizations that must undertake transformational change face major potential obstacles in delivering on their operational mandate, while maintaining focus and delivering on change targets in a manner that reinforces and runs parallel to day-to-day activities. The senior management team within Defence clearly recognized this in 1999 when, after developing *Shaping the Future of the Canadian Forces: A Strategy for 2020*, they set out an agenda to both sustain and change the institution. Notwithstanding these efforts, however, the Committee was struck during its review by how current Defence management structures and processes have proven resistant to strategic-level, transformational change, thus greatly hindering implementation.

When faced with a significant transformation challenge, many private sector corporations either rely on a 'chief restructuring officer' or appoint a chief executive officer with a specific mandate and a long tenure (e.g., 10 years). Neither of these models can be adapted directly to the unique requirements of Defence. However, the Committee believes that, if Defence is to move beyond its record of inconsistent implementation of strategic-level change and address the requirement for transformational change, a full-time 'change agent' is required.[8]

Achieving transformation in Defence will require new thinking and deliberate departures from the status quo; achieving efficiencies, in contrast, will require an ongoing commitment to continuous improvement. Success in meeting both of these challenges will require committed, active leadership and clear accountabilities.

The Committee is of the view that implementation of most of the specific recommendations designed to improve efficiencies and produce the direct savings identified by the Committee can be realized through existing structures. While successful implementation will require the personal involvement and leadership of the Minister, Deputy Minister (DM), and Chief of the Defence Staff (CDS), the DM and the CDS can and should make individual Level One managers accountable for specific initiatives that flow from the Committee's recommendations. This ac countability should be clearly established in Performance Management Agreements, and used to determine a significant portion of the 'at risk' pay of these managers through the implementation period. Establishing this clear accountability for results would not only help to implement this Report's recommendations, it would reinforce the management philosophy being put forward by the Committee and be a further important step in the pursuit of management transformation in Defence.

The Committee therefore recommends that the Minister of National Defence consider appointing a senior official for a five-year term to lead transformational change in Defence, which would include monitoring and reporting on the implementation of the many individual recommendations set out in this Report. This official would be directly accountable to the Minister and supported by a small, focused staff of public servants and CF members that would work with, but independently from, staff within the Department and the Forces. Success in this role would require a senior official with extensive government experience, a thorough understanding of Defence, an appreciation for the opportunities and challenges presented by new technology, and a strategic perspective. The appointed individual would also have to be credible in the eyes of Defence leadership, government and the Canadian public. Finally, he/she would have to possess well-developed interpersonal, team-building and communication skills to succeed in this very challenging transformational assignment.

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[8] This approach is being used in the United States where Defense Secretary Donald Rumsfeld appointed retired US Navy Vice-Admiral Arthur K. Cebrowski as Director of Force Transformation in October 2001.

The engagement and support of the entire Defence senior management team and every level of the organization will be necessary to convert corporate decisions into local actions that produce savings and to support transformation. The savings in time, money and personnel from the Committee's recommendations, building on the good work already underway across the Department of National Defence and the Canadian Forces, support the Minister's efforts to reallocate resources from lower to higher priorities within the Defence program. The Committee fully supports his initiative and understands the need to focus resources on the essential military capabilities that deliver on the Defence mission.

The Committee firmly believes that the first step in answering the question posed by the Chief of the Defence Staff in his report *A Time for Transformation,* as to "…how best to achieve the required transformation", is to begin with transforming the fundamental management practices of National Defence Headquarters. This change is not only key to achieving higher levels of administrative efficiency, it is also critical to enabling the transformation of the Canadian Forces.

As the Minister of National Defence noted in a speech in October 2002:

> ***"…any large organization has silos, bureaucracies and waste…I believe that the leaders of all such large organizations have a duty to push for continuous change and for restructuring. Now, my predecessors as well as the military leadership have brought about tremendous change in defence in recent years. So we can't afford to stop now, change has to be continuous, it's always a work in progress."***

The Committee believes that the fundamental transformation of Defence's national-level management framework is an urgent priority for the Department and the Canadian Forces. Defence's management practices, processes and culture must be re-positioned and re-focused on a management framework that emphasizes clear accountabilities, responsibilities and authorities that enable strategic, corporate-level decision-making and decentralized execution. This management transformation is vital to the Minister's and the CDS' mutual efforts to achieve higher levels of efficiency and support the transformation of the military capabilities of the Canadian Forces. The Committee is convinced that, in this effort, a 'business as usual' approach will not suffice.

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Introduction

On January 30, 2003, the Minister of National Defence announced the appointment of the Advisory Committee on Administrative Efficiency (hereafter referred to as 'the Committee') to support efforts to improve efficiency and identify the potential for savings within the Department of National Defence (DND) and the Canadian Forces (CF).

The Committee was comprised of four individuals with a broad mix of expertise and experience in:

- restructuring large organizations to improve efficiency;
- private sector management and administration;
- public sector management and administration; and
- leadership and management of the Canadian Forces.

Mandate

The Minister's expectations for the Committee were clear. The Committee was to contribute to his stated goal of finding $200 million in internal efficiencies and savings to reallocate from lower to higher priorities *within* the Defence program. The Committee was neither expected nor mandated to find the entire $200 million. Rather, the work of the Committee was to complement and add to other initiatives underway within DND and the CF to sustain the Defence program and support future transformation.

The mandate was also clear. The Committee was to examine and provide advice to the Minister on:

- any issue(s) of administrative efficiency, broadly defined, within the Department of National Defence and the Canadian Forces that it chose to investigate; and
- the materiel acquisition and procurement process within the Department of National Defence.

The mandate did not include issues of military capabilities, force structure or Defence policy. Further, while the Committee's work on administrative efficiencies was to be centred on Defence[1], it was also expected to work in partnership with Public Works and Government Services Canada (PWGSC) in examining materiel acquisition and procurement.

The Minister further requested the Committee to conduct an analysis of business practices within Defence, focusing on Defence Headquarters (NDHQ). Specifically, the Minister asked the Committee to:

- investigate the efficiency of the Department's strategic planning and resource management processes;

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- identify potential areas of unnecessary overlap and duplication within the organization and structure of National Defence Headquarters (NDHQ); and
- study areas where significant investments are being made, such as information management and technology, and identify any efficiencies that could be gained in these areas.

The Committee was given six months to complete its review and report back to the Minister. A small Secretariat of 11 personnel, composed of public servants from DND and PWGSC, officers and a senior non-commissioned member from the CF, was provided to support its work.

This Report fulfills the Committee's mandate.[2]

Methodology

The Committee began its work on February 17, 2003 with a series of strategic-level briefings on the organization of NDHQ, the Defence budget, the strategic resource planning process and recent internal departmental reviews in areas within the Committee's mandate.

Over the initial six-week period, the Committee interviewed senior Defence officials in order to gain a broad, strategic understanding of the issues and challenges facing the institution, become familiar with work already underway to improve management effectiveness and efficiency, and to identify areas for more detailed analysis.

On the basis of this initial round of consultations and analysis, and given its broad mandate, the time available to complete its work, and the size and complexity of DND and the CF, the Committee realized that, while it needed to be as comprehensive as possible, it would also need to be selective and focus its efforts on the most promising areas for improving efficiency. The Committee did not have the time, or the intent, to conduct a thorough re-engineering exercise or a detailed audit of NDHQ, the Department or the CF.

The Committee therefore decided to focus its analysis on six specific areas. Based on its preliminary survey and consultations, it believed these areas were most likely to produce efficiencies. They were:

- **Governance**, including Defence's management framework, executive committee structures, strategic planning, resource allocation, and resource management processes;
- **Procurement**, including the functional relationship between DND and PWGSC, the capital project approval process, capital expenditure authority levels, capital project close-out, management and procurement of software licenses and information technology hardware, and major equipment disposal;

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[2] A summary of the Committee's recommendations is provided at *Annex A*.

- **Information Management and Information Technology**, including the Department's information management services and information technology service delivery in the National Capital Region;
- **Infrastructure**, including real property management, opportunities for partnerships with PWGSC and other departments or the private sector, strategies to reduce surplus property holdings and energy efficiency;
- **Military Human Resource Management**, including the grievance process and oversight bodies related to it, pay administration, travel, the Department's use of professional services contracts, and areas for potential common services with the civilian human resource management organization; and
- **Civilian Human Resource Management**, including the management framework, service delivery model, the demographic challenge facing Defence and preparation for implementation of new legislation for Public Service Human Resource Management Modernization (Bill C-25).

Each Committee member led the analysis of issues in their area of expertise and were supported by the Secretariat. As part its analysis, the Committee consulted with senior managers and their staffs throughout National Defence Headquarters, PWGSC, the Treasury Board Secretariat, and with other stakeholders including the Auditor General of Canada, the Canadian Defence Industries Association, the National Defence Union Management Consultation Committee and the Canadian Forces Ombudsman.[3]

Further, the Committee and Secretariat also considered relevant internal reports, reviews and audits, and examined cases from other government departments and other countries where these were of potential value.[4]

Finally, the Committee believed that many of the best ideas for improving administrative efficiency would reside within the Defence management team and workforce, and that it was important to consult broadly within the institution -- to the extent possible and as time allowed. To this end, the Committee set-up a suggestion 'mailbox' that was available to all DND employees and CF members through the Department's national intranet site for a period of 10 weeks. The Committee's Secretariat reviewed all suggestions, some of which touched on areas that the Committee had decided to investigate in detail, while others fell outside of the Committee's mandate.[5]

Throughout its work, the Committee enjoyed full and complete access to all available information and individuals within Defence needed to conduct its analysis, including senior military and civilian management and staff from NDHQ and the field. Indeed, the Committee commends the quality of support and cooperation that it received from departmental and military officials across the institution.[6]

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[3] A list of officials interviewed by the Committee is at *Annex B*.

[4] A list of the reports and other documents referred to the Committee is at *Annex C*.

[5] A summary of the suggestions received is at *Annex D*.

[6] A chronology of the major events during the Committee's mandate is at *Annex E*.

Key Observations

From its initial meetings with the Minister, to its consultations with senior officials, and throughout its analysis, it has been clear that DND and the CF are emerging from a decade-long period during which the main resource challenge was, and in some ways continues to be, to 'manage scarcity'.

As part of the Government's efforts to eliminate the deficit in the 1994-1996 period the defence budget was cut by close to $3 billion, the Regular Force was reduced from some 75,000 in 1994 to 60,000 in 1998, and the departmental civilian establishment was cut from 30,000 to 20,000. Over the same period, the military and civilian leadership had to respond to significant operational challenges, and implement more than 300 institutional reforms following the events in Somalia and elsewhere.

Responding to and managing these pressures in a resource-scarce environment has clearly occupied much of senior management's attention and taxed the institution as a whole. Indeed, as part of its initial analysis and work, the Committee was briefed on how Defence managed the budget cuts and force reductions of the mid-1990s, and conducted what is known within the institution as the Management Command and Control Re-engineering Team (MCCRT) initiative from 1995-1997. MCCRT was an end-to-end review of management processes and organizations from the level of NDHQ to operational bases, with a target of reducing the resources dedicated to headquarters (above the Base/Wing level) by 50 percent.

Indeed, the Committee was struck by the impact that managing scarcity has had on Defence's management structures, business processes and culture. In its efforts to manage the challenges of the past decade, the military and civilian leadership of Defence have emphasized inclusiveness, consensus, devolution of authority, decentralization, and coordination through process. At the same time, the senior leadership has been forced to focus on managing short-term issues, which often forces a more centralized management approach. The resulting organization is complex, bureaucratic, and cumbersome when dealing with non-operational issues, longer-term management challenges, and strategic-level change. In some areas, substantive reports and studies have been conducted, but not implemented. In other cases, senior management decisions get only partially implemented before the 'urgent issues of the day' drive out the important. In this regard, the Committee noted with interest and concern that the MCCRT Report itself was only partially implemented. The Committee also found a number of cases where recommendations of the Chief of Review Services were not followed through and, as a consequence, opportunities to achieve savings were missed.

To the outside observer, it appears that Defence's ability to adapt to strategic-level change is being constrained by many of the same management structures and processes put in place to manage the downsizing of the mid-1990s. In too many areas, a consensus-based culture, coupled with devolved accountabilities, forces a 'bottom-up' approach to issues management, business planning and decision-making. This approach encumbers senior management in micro-management and has produced a dynamic that delays implementation of decisions or forces further study of any contentious issue.

While many of these management structures and processes may have been appropriate for the 1990s, they are not, in the opinion of the Committee, appropriate for the challenges that Defence faces today. Indeed, as it conducted this review, it was clear to the Committee that Canada's armed aorces and the Department of National Defence are in a period of transition.

In the last decade of the last century, the potentially very dangerous but relatively stable security environment of the Cold War that had shaped Canada's defence efforts for some 40 years was replaced by a more uncertain, unstable and unpredictable world. Since then, the attacks on the United States on September 11, 2001, and subsequent attacks in Bali, Indonesia and elsewhere have reinforced this new reality, heightening awareness and concerns regarding the threat of international terrorism.

Over the same period, the dramatic rate of technological change and growth of information technology have had, and continue to have, a profound impact on organizations and their management, creating literal 'revolutions' in military and business affairs. These revolutions are fundamentally changing the way information and large organizations are managed, creating both opportunities and challenges for DND and the CF.

Globally, Canada's principal allies, the United States, the United Kingdom and the North Atlantic Treaty Organization have all embarked on military transformation strategies, developing new capabilities to respond to the changing business and security environment. The Committee agrees with the Chief of the Defence Staff's statement in his 2002/2003 Annual Report entitled *A Time for Transformation* that, "…the question for Canada is not whether to transform the Canadian Forces, it is how best to achieve the required transformation."

The Committee also agrees with the Chief of the Defence Staff's statement in his report that:

"We must transform our management structures and decision-making processes. If we are to succeed in the years ahead, we must become a much more nimble organization capable of making decisions and acting on them faster. Put simply, we must build management structures and decision-making processes that facilitate timely, but accountable decision-making by the right decision-makers at the right time, from the soldier on the ground, right up to Government when necessary."

In approaching its mandate, the Committee was keenly aware of this broader transformation challenge. Indeed, it compelled the Committee to question, as part of its review, how well is Defence currently structured to transform itself?

On the basis of its consultations, observations, and analysis, it is the Committee's view that neither the Department, nor the Forces, is well positioned, from a *management perspective*, to meet the transformation challenges of the decade ahead. Indeed, the 'bottom-up', consensus-driven culture that dominates Defence runs counter to what is required to drive strategic, transformational change. On this basis, the Committee concluded that the transformation of Defence's management structures and decision-making processes is an essential pre-requisite for transforming CF force structure and military capabilities and for moving the Department to higher levels of administrative efficiency.

Structure of the Report

The rest of the Committee's Report is divided into three sections, supplemented by several annexes organized on the basis of three themes, as follows:

- Section 1: Management Enhancements;
- Section 2: Administrative Savings; and
- Section 3: Longer-term Opportunities.

Collectively, these sections draw together the Committee's work on the six issue-areas that it studied in detail, namely governance, procurement, information management and information technology, infrastructure, military human resource management and civilian human resource management. Each section discusses a number of challenges or problems that the Committee observed and makes specific, action-oriented recommendations on ways to improve efficiency.

Wherever possible, the Committee has tried to identify the value of the resources that could be reallocated or gained by implementing its recommendations. The Committee has also provided additional advice on how to implement its main recommendations.

Section 1: Management Enhancements

Early in its analysis, it was clear to the Committee that there were few, if any, 'easy' savings to be found within the Department or the Forces. After a decade of managing scarcity, what 'easy' savings there were had long ago been realized.

It was also clear that one of the areas with the greatest potential to produce administrative efficiencies and, potentially, longer-term savings, lay within the area of management effectiveness. Efforts to improve management effectiveness are likely to be rewarded with very significant savings in dollars, personnel and time. The Committee believes that the efficiencies gained by improving management practices and governance, while less readily quantifiable, would be considerably greater than those identified in the specific recommendations included in this Report. Indeed, based on the Committee's observations, consultations and analysis, it believes the most important changes required to improve administrative efficiencies and support efforts to transform Canada's military for the future are those that will modernize and transform the management practices and processes of National Defence Headquarters (NDHQ).

The Committee's recommendations to enhance management cover several of the key areas it reviewed, including:

- governance;
- procurement;
- information management and associated information technologies; and
- civilian human resource management.

Governance

Under the rubric of governance, the Committee considered a number of issues related to the strategic management of the Department and the Forces, including:

- the role and size of NDHQ;
- decision-making and committee structure;
- risk management;
- strategic planning;
- resource management;
- management preparation; and
- approach to change.

While it has developed several specific recommendations, the Committee believes that improving overall governance and management effectiveness at Defence necessitates tackling four principal issues:

- **management focus is more transactional than strategic** – where a transactional culture pervades NDHQ that allows the management of a multitude of more routine issues to 'box in' or to even overcome the consideration of many of the more difficult strategic issues, which then tend to either get deferred or even pushed aside;

- **accountabilities[7] are too diffuse** – with insufficient attention paid to the identification, assignment and enforcement of senior management accountabilities and, consequently, Defence relies extensively on consensus as a decision-making philosophy;
- **risk tolerance is too low** –there is a cultural aversion to programmatic risk and as a result, resistance to all but the most incremental change; and
- **core competencies are not clearly identified** - there is an apparent inability and unwillingness to identify activities and functions as being core to the Defence mission, resulting in both military and civilian personnel being sub-optimally employed on non-core activities.

Observations on NDHQ and Management Philosophy

The 1995-1997 the Management, Command and Control Re-engineering Team (MCCRT) initiative sought to re-engineer Defence's management framework and processes, in order to reduce the number of personnel and resources devoted to headquarters functions and tasks, and to empower managers to execute their assigned functions. With the reduction in resources allocated to headquarters functions, the MCCRT initiative was to bring a commensurate reduction in workload. However, in hindsight and very regrettably, the latter did not happen.

Inherent in the MCCRT recommendations was the assumption that the future management of DND and the CF was to be guided by business planning, with a high level strategic plan developed under the leadership and authority of the Deputy Minister (DM) and the Chief of the Defence Staff (CDS). The Strategic Plan would provide the overall management framework, priorities and direction to Level One managers, who would, in turn, use the Strategic Plan to guide the preparation of their business plans. These business plans would then provide guidance to managers, a basis for performance management and an accountability framework across DND and the CF. They would also allow the Department and the Canadian Forces to tailor the scope of the Defence Services Program to the resource levels approved by the Government. They would also support performance management and enable the devolution of functions and responsibilities to managers who, under the concept of single operating budgets, would have increased delegation of authority and control over resources. The process would allow decisions on resource management and tradeoffs to be made by Level One managers-within approved plans. They would then be held accountable for the results achieved. This approach would be consistent with the framework for management set out by the President of the Treasury Board in *Results for Canadians: A Management Framework for the Government of Canada* and the Government's policy and approach to Modern Comptrollership, as approved and promulgated by the Treasury Board.

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[7] The term 'accountabilities' is used throughout the Report to refer to accountabilities, responsibilities and authorities.

During its review, the Committee concluded that while the professed management philosophy of DND and the CF just described places a high priority on devolution of authority and accountability, the reality is quite different. Higher-level decision-making structures remain, in many cases, the same as before MCCRT and business practices reflect a more centralized approach to management than envisioned under MCCRT. While the implementation of business planning is still evolving, many tradeoffs in resource management are still being directed to the corporate level, rather than being first addressed by Level One managers.

Moreover, the overall approach to the management of resources in DND and the CF is further weakened by the fact that, in several areas, the scope of longer-term plans (e.g., capital equipment) far exceeds approved resource levels. Furthermore, there is excessive over-programming against approved resources, and there continues to be blurred accountability in linking the expenditure of resources to the achievement of results. Within Defence, there is constant pressure for additional resources from competing demands and, where justified, the ensuing need to make internal tradeoffs in response to these demands. The management structure and culture at NDHQ also does not appear to facilitate strategic-level corporate tradeoffs. Rather, 'bottom-up', process-driven, consensus-oriented management structures throughout NDHQ favour incrementalism, as opposed to decisive action (with the exception of military operations).

The Committee also observed that workload in NDHQ remains high, with a significant amount of work being conducted on activities and/or projects that are in competition with one another for senior management's attention and for resourcing. The Committee believes there are several factors that contribute to the workload issue, including:

- planning in the absence of clear strategic direction;
- planning for the utilization of resources in future years that are substantially above approved funding levels;
- striving to achieve consensus in decision-making in the absence of a functional performance management framework; and
- endeavouring to avoid risk in decision-making at all levels.

This has the dual effect of increasing workload while fuelling concerns and perceptions about resource scarcity. Indeed, in this environment (bottom-up, process-driven, consensus-oriented), the demand for resources will likely always exceed supply. As a result, senior management will always be caught up, within the current framework, in never-ending rounds of discussions and decision-making related to resource shortages.

These shortfalls are exacerbated by the ongoing daily pressure of public issues management, which consumes a significant amount of time and effort of the DM, CDS, and many of the Level One managers. The combined result is a dynamic that tends to reinforce a focus on issues that are more short-term in nature, but which require immediate attention, and, in many cases, the achievement of consensus prior to taking action. This process is very time consuming and undermines efforts to address longer-term strategic issues, the overall management of performance and the achievement of results.

Another related issue of concern to the Committee is that senior level decision-making bodies (as exemplified by the Defence Management Committee (DMC)) tend to be all-inclusive in their membership, rather than including only those with a strategic, organizational focus. While this inclusiveness reflects NDHQ's consensus-oriented culture, it is time-consuming, constrains decision-making in the corporate interest and undermines efforts to reach strategic decisions and make difficult decisions on resource trade-offs. Furthermore, senior-level committees are often mirrored by a network of lower, 'next level down' committees that deal with the same issues. This second tier of committees is another manifestation of the effort to be all-inclusive, achieve consensus and avoid risk, thereby consuming even more time and administrative resources, while slowing decision-making.

The Committee also believes that, from an overall perspective, insufficient attention is paid to the identification of core competencies or activities. As a result, DND and the CF continue to execute enabling or support tasks that might be completed more efficiently by others. At a macro level, this is reflected in a palpable reluctance within Defence to consider out-sourced solutions for non-core activities such as information technology (IT) services and real property management. At the micro level, the result is the duplication of activities between Level One organizations in NDHQ and the development of unnecessary overhead (e.g., duplication of Chief Information Officer (CIO) functions within Level One organizations and opting out of NDHQ shared support services).

Role and Size of NDHQ

The Committee noted that many of the challenges associated with NDHQ can be directly linked to its mandate and relatively large size. Its broad mandate contributes to a loss of strategic focus, while its size supports the bureaucratic, process-driven culture and exacerbates the transactional, issue management-focussed approach to business that currently dominates the agenda. Although the impact is not easily quantifiable, the inherent complexity of the organization results in a significant degree of self-generating work, much of it aimed at supporting the operation of NDHQ, rather than meeting the broader needs of DND and the CF. Hence, an organization that should be focussed on strategic thinking and decision-making has become mired in administrative detail and processes.

The Committee also noted the growth, over the past few years, in the size of NDHQ and the number of Level One military and civilian executive level managers. Since the end of the MCCRT initiative in 1997, the number of direct reports to the DM and CDS has grown to reflect changing accountabilities, the increasing complexity of government and governance, and the evolving organizational dynamics within Defence. As well, the population of NDHQ has returned to pre-MCCRT levels, augmented by a 'hidden' workforce employed under professional service contracts. While some of this growth is directly attributable to new functions and increased mandates (e.g., the transformation of Emergency Preparedness Canada into the Office of Critical Infrastructure Protection and Emergency Preparedness in 2001), a major portion appears to reflect the fact that deep

NDHQ cuts under the MCCRT initiative were not accompanied by corresponding business process re-engineering or decreases in workload. More importantly, there also appears to have been little corporate control or senior management visibility of the re-growth of the size of NDHQ following MCCRT reductions. Even today, senior management's visibility of the current size of NDHQ is lacking. The limited constraints and the lack of visibility on headquarters size and growth are worrisome.

In brief, it is the Committee's view that an organization which should be focussed on strategic decision-making has become mired in administrative process and detail. The Committee believes that longer-term corrective action can only be addressed through a fundamental review of the role and core functions of NDHQ and, unlike the response to MCCRT, through the implementation of lasting change. A shift to a management paradigm characterized by focussed, strategic-level direction should result in significant savings in time, personnel and money.

The Committee's recommendations with respect to NDHQ follow two principal themes. Firstly, the requirement for a fundamental re-thinking of the role of the headquarters and, secondly, the need within the existing NDHQ mandate to control, and where justified, to roll back recent growth. While the aim of this re-think should be on renewing NDHQ's strategic focus, the Committee fully expects that it will also identify activities that not only need not be done in NDHQ, but simply need not be done at all.

The Committee does not underestimate the potential work associated with this review, but it believes that it is key to the ability of Defence to free up personnel and operating resources from headquarters and administration activities for reallocation to those more directly related to generating and sustaining combat-capable military forces.

Recommendation 1. Re-thinking NDHQ

It is the Committee's experience that smaller headquarters tend to remain strategic in focus, while larger ones inevitably involve themselves in transactional issues. Accordingly, the Committee recommends that a thorough review of NDHQ be undertaken in two domains. Defence should:

a. ***examine the fundamental role of NDHQ, with a view to restricting it to truly strategic functions (i.e., policy, strategic planning, resource allocation, etc.), where enabling functions and services (such as procurement, program delivery, support functions, etc.) are executed outside of the headquarters; and***

b. ***conduct a thorough review of each of the Level One organizations within NDHQ be carried out, in the context of the annual review of business plans, so as to ensure that:***

- ***the roles, responsibilities and outcomes that are expected from each are clearly articulated and that the resources allocated to them are linked to the achievement of results or outcomes;***
- ***each is subjected to a 'first principles' review to confirm its primary purpose, to remove those functions that do not specifically need to fall within its purview, and to ensure there is no overlap or***

duplication in resource utilization either within individual Level One organizations or between Level One organizations at NDHQ and elsewhere within DND and the CF;

- ***the utilization of resources is justified and is both efficient and effective, with an ongoing focus on saving resources for reallocation from administrative overhead to operations; and***
- ***where the work being conducted is strategic in nature and in scope, the outputs are also focussed at that level.***

Recommendation 2. Reporting on the Size of Organizations

The Committee recommends that, beginning immediately and as an element of performance and regular resource management reporting, senior management be provided, by responsibility centre, the number of military members, civilian employees and contracted individuals employed both in NDHQ and elsewhere in the organization.

Decision-Making and Executive Committee Structures

As stated above, attendance at committees consumes a large amount of senior management and staff time, often for passing information as opposed to deliberations that add value to the strategic direction of Defence. Committee membership is generally large (DMC has 20 formal members) and is often perceived as a 'collection of equals', which carries with it an inherent underlying desire to seek consensus. Lower-level committees also seek to develop consensus based solutions they feel will be broadly acceptable to more senior-level committees. Hence, consensus is often driven from the 'bottom up'. For their part, single-issue committees tend to make decisions within a narrow focus that often lacks a strategic perspective. Over time, the amalgam of such decisions can conspire to 'box in' or constrain strategic direction or action. Further, committees often become embroiled in day-to-day issue management at the expense of maintaining a strategic or corporate focus.

The Committee has identified five significant consequences associated with this situation:

- excessive reliance on committees undermines the devolution of accountability, responsibility, and authority;
- the empowerment one would normally expect be integral to fully functional business plans, tends to be overtaken by the overarching desire to achieve consensus;
- decisions tend to be elevated (pushed or pulled) to levels higher than necessary, often by staff that have no direct link to the accountability for the issue at hand;
- committees become embroiled in day-to-day issue management, at the expense of developing a strategic or corporate focus; and
- responsibilities and accountabilities become diffused and, as a consequence, performance management suffers.

Fundamental to the consideration of any changes to Defence decision-making mechanisms is the understanding that the Deputy Minister and Chief of the Defence Staff must have direct access to their direct reports and key technical advisors. The Committee believes, however, that Level One status should be based on the complexity and the scope of the functions being executed and their importance to the Defence mission. Level One status should not, however, automatically make the incumbent a member of the strategic, corporate decision-making team, nor is it necessary that the decision-making structure mirror the organizational structure.

Based on its assessment, the Committee believes that NDHQ's committee structure should be both simplified and streamlined, with the objective of strengthening the organization's ability to make strategic, corporate decisions. To be effective, this must include:

- changes in management philosophy;
- the streamlining of corporate decision-making; and
- adjustments to the mandates and functions of the organization's senior management committees.

Recommendation 3. Management Philosophy

The Committee recommends that DND and CF organizational design and functioning should be aligned with a management philosophy that is based on centralized strategic direction and decentralized execution by empowered Level One managers, with an appropriate re-allocation of resources between levels and functions that is reflective of this approach.

As part of this effort:

a. ***the focus of senior committee structures should be on achieving results and outcomes and positioning information for decision-making in support of these objectives;***

b. ***the time that committees spend on passing information should be better controlled and, where possible, reduced (additionally, a stronger emphasis should be placed on value-added inputs from Level One managers);***

c. ***the current desire to achieve consensus in decision-making should not be allowed to dilute individual accountabilities or undermine decision-making;***

d. ***the number of 'next level down' committees should be consolidated and/or reduced; and***

e. ***the DM and CDS should continue to refine and strengthen the Performance Management Program for DND's Public Service Executives and the CF's General Officers, as recently outlined by the President of Treasury Board in response to the Sixth Report of the Advisory Committee on Senior Level Retention and Compensation.***

Recommendation 4. Creation of a Senior Executive Committee

The Committee recommends that corporate, strategic-level decision-making be streamlined through the creation of a Senior Executive Committee. This would entail the following changes:

- ***a.*** ***participation in corporate decision-making at the highest level should be largely restricted to those whose role and function is both strategic and corporate;***
- ***b.*** ***to this end, and as the focal point for corporate decision-making, the Committee recommends the creation of a Senior Executive Committee, chaired by the Deputy Minister and Chief of the Defence Staff, and composed of the following executives -***
  - ***Associate Deputy Minister,***
  - ***Vice Chief of the Defence Staff (VCDS),***
  - ***Deputy Chief of the Defence Staff (DCDS),***
  - ***Assistant Deputy Minister (Policy), and***
  - ***Assistant Deputy Minister (Finance and Corporate Services);***
- ***c.*** ***this Committee would be senior to the existing Defence Management Committee and should deal primarily with forward-looking, strategic issues, focussing on Defence policy, strategic planning and direction, capability planning, resource allocation at the strategic level, and performance management; and***
- ***d.*** ***attendance at this Senior Executive Committee could be expanded by invitation to include specialist advisors in observer status.***

Recommendation 5. Adjustments to Existing Committees

The Committee further recommends that existing key committees be refocussed as follows:

- ***a.*** ***the Defence Management Committee's agenda should be both forward looking and reflective in nature, and should focus on pan-departmental issues of strategic importance -***
  - ***it should deal with the ongoing management of DND and the CF in terms of Business Planning, reporting on performance and resource utilization; and***
  - ***it should play a substantial role in performance management and in critical/high-profile issue management, and be less of a forum for routine information briefings;***
- ***b.*** ***the current Daily Executive Meeting should continue as a forum for providing information briefings, and for focussed discussions on key issues of strategic or operational importance which require immediate attention at the senior executive level;***
- ***c.*** ***the mandate and role of the Joint Capability Requirements Board (JCRB) should be expanded and tasked to play the lead role in integrating planning at the earliest possible stage and spearheading the annual development of a Level Zero Strategic Plan (the Defence Plan), and this***

Committee should be renamed to better reflect its expanded role and mandate;

d. ***the role of the Program Management Board (PMB) should be examined, to determine whether or not there is a need for this Committee, or whether its functions would not be better served if carried out under the new expanded terms of reference for the JCRB;***

- ***the terms of reference for this integrated planning function should be updated, regardless of where it is assigned, to conform with the revised resource management framework that is being recommended in this Report;***
- ***the role should be less interventionist and be based on a 'management by exception' approach, with a particular focus on significant issues that either impact on or add value to strategic outcomes, encompassing:***
    - ***the maintenance of transparency as to the overall prioritization, allocation and consumption of resources against military priorities, including those allocated under functional plans and corporate accounts that support the operations of the Canadian Forces;***
    - ***the review of major equipment and system acquisitions that would either support or be deployed within the operations of the Canadian Forces;***
    - ***consideration of the consequences of significant deviations in planned spending or results achievement against business plan activities that impact the operations of the Canadian Forces; and***
    - ***the current role of being a 'clearing house' for routine resource management issues should be left to responsible managers to resolve within the scope of their respective approved Business Plans.***

Risk Management

While the Committee believes Defence's Integrated Risk Management Framework is conceptually sound, it is clear there is a less than complete understanding of risk management on the part of managers and staffs, which is currently hindering its implementation within the organization. This shortfall results in the inconsistent application of risk management principles across DND and the CF, and exposes the organization to potentially unidentified risks (e.g., resource over-programming being compounded at different management levels).

Further, the tolerance for risk throughout Defence appears low. This is exemplified by a 'one size fits all' approach in the capital expenditure approval process, and the organization's tendency to manage by committee. Unfortunately, low risk tolerance runs counter to transformation and can stymie innovation, suppress creativity and initiative, and elevate decisions to levels above which they should be made. It is also a contributor to the consensus-based decision-making culture that permeates NDHQ.

On the basis of its analysis, the Committee believes that greater emphasis must be placed on understanding risk management, identifying and quantifying risk and on integrating risk management strategies throughout the institution.

Recommendation 6. Risk Management

The Committee recommends that senior management should, building on the existing Integrated Risk Management framework, adapt its approach to the management of risk across DND and the CF to one in which:

a. ***the focus is on managing risk effectively rather than avoiding it, based on a common understanding of risk management and an appropriate delineation of risk thresholds at each management level;***
b. ***the 'one size fits all' template currently used is replaced with a more differentiated approach that accepts risk where appropriate, manages it effectively, and is accepting of the consequences of legitimate errors;***
c. ***training for risk management is embedded in the DND and CF management and leadership development programs; and***
d. ***the approach is balanced and applied consistently.***

Strategic Planning

While the *1994 White Paper on Defence* is the Government's most recent policy statement on Canada's defence policy, the Government did not formally approve the Department's future vision *Shaping the Future of the Canadian Forces: A Strategy for 2020*, nor has it approved an overall strategic plan.

It is the Committee's view that strategic planning for Defence falls short in that:

- there is no commonly held understanding of the prioritized capability requirements for the longer term;
- capital equipment and other requirements are driven 'bottom up' rather than 'top down' and they do not flow from a coherent overall plan;
- supporting plans (capital, human resources, National Procurement[8], infrastructure, in-service support, etc) are not well linked; and
- in the absence of a corporate perspective, strategic planning staffs tend to focus on Environmental (Navy, Army, Air Force) interests.

These shortfalls in strategic planning result in a lack of unity of effort and commonality of purpose across DND and the CF, and exacerbate the tendency toward transactional decision-making. Long term planning appears to have become an internal resource competition rather than an effort to achieve defined results or corporate goals.

The Committee has noted a number of very useful steps that are already being taken to address some of the identified deficiencies. These include:

- establishment of the JCRB, with its focus on capability requirements;

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[8] National Procurement refers to support to in-service equipment, including items such as maintenance and spares replenishment.

- growing awareness of the need to focus planning efforts on the 10-15 year (Horizon 2) timeframe; and
- development of the Strategic Capability Investment Plan (SCIP), provided that it is linked to a clear understanding of the capability requirements of the next 10-15 years and represents integrated 'top-down' (and not stove-piped 'bottom-up') planning.

While these initiatives are a positive step forward, the Committee still has a number of concerns with the current strategic planning model:

- while noting that it remains very much a work-in-progress, the draft Canadian Force Strategic Operating Concept does not yet provide a clear understanding of future (10-15 year) capability requirements. (As a result, and lacking this necessary roadmap for the way ahead, equipment acquisition plans and investments in infrastructure become vulnerable to short-term pressures and interests. Without an emphasis on integrating planning across all capability elements (equipment, human resources, infrastructure, etc.), DND and CF unity of purpose and coherence of effort become more difficult);
- the current SCIP process also appears to be focussed on the production of an equipment acquisition plan largely driven by a 'bottom up' process that collates the various requirements of the three Environmental Chiefs of Staff; and
- the shortfalls of this 'bottom up' approach are exacerbated by the fact that current planning retains a focus on specific equipment 'platforms' rather than on 'capabilities'.

Recommendation 7. Strategic Planning

Building on the initiatives already underway, the Committee recommends that strategic planning continue to be strengthened, with particular emphasis in the following areas.

a. ***Defence should refine its understanding of its 10-15 year (Horizon 2) capability requirements and bring to bear: clearer prioritization, better identification of key decision and implementation milestones, and more explicit linkages to Allied initiatives and to technological development.***

b. ***Strategic planning must be given an increased corporate perspective, through increased centralization and a strengthening of the VCDS responsibility for strategic planning.***

c. ***Defence must place greater emphasis on 'top-down' direction based on a broader CF perspective. This will involve administering the JCRB planning process as a seamless follow-through of the strategic planning function with the VCDS focussing on what capabilities are required and ECS planning staffs focussing on how to achieve them. This change should largely alleviate the 'bottom-up' dynamic that currently dominates the process.***

d. ***Defence must move vigorously to complete the development of an implementable SCIP. The Committee believes this is crucial for providing coherence and focus to strategic planning efforts. The SCIP should be an integral planning document structured around capabilities, not solely equipment. This will require the increased integration of HR, infrastructure, IM and other enabling functions.***

e. ***The Strategic Plan should address implementation issues including resources, risk assessment and time limitations, and include an assessment of any constraints that they may bring to bear in terms of achievability. As a logical follow-on, the JCRB should continue its capability focus through its ongoing development of the SCIP and by ensuring coherence of the 10-15 year (Horizon 2) initiatives, etc. The VCDS, as Chair of the new JCRB, should continue to play the central role in overseeing mechanisms for the strategic allocation of resources to military priorities, more effective performance and risk management and improved performance reporting.***

Resource Management

It is the Committee's view that the DND and CF resource management and business planning processes at NDHQ can be characterized as:

- highly transactional with an overwhelming focus on the current fiscal year, at the expense of forward-looking planning;
- lacking in transparency in the linking of resources to achieving required results or outcomes;
- based on Level One manager's justification of incremental or marginal demands, driven largely by the consideration of inputs (i.e., the resources required), rather than the achievement of results or required outcomes;
- personnel and time intensive; and
- competitive in nature.

As a result of these shortcomings, the Committee believes that senior management (particularly the DM, CDS, and members of PMB) is involved in making transactional resource decisions that would be better delegated to Level One managers. This unnecessary elevation in decision-making levels results in the potential for micro-management and accentuates the tendency toward transactional decisions. It also contradicts Defence's stated goals of empowering managers and upholding accountabilities. This situation is further exacerbated by the proliferation of corporate[9] financial accounts that serves to further reduce managerial flexibility.

Given that the linkages between capability elements are not fully understood (e.g., life cycle operating and personnel costs of new capabilities, etc.), there can be a lack of coherence between resource allocations for capital equipment and National Procurement. There also are poor linkages between capital equipment and operating expenditures, and corresponding human resource investments. The inadequate linkages between resource allocation decisions and performance and risk management, discussed above, further amplify these potential pitfalls. As a result, the necessary trade-off decisions of what to do and what not to do are not as evident as they should be. Furthermore, the criteria used in setting corporate priorities lack the specificity required to aid decision-making. Finally, the lack of a common understanding and application of risk management and risk tolerance levels contribute to this less than optimal situation.

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[9] Corporate accounts have been established for a wide range of activities (e.g., military pay, heath services,edu cation and professional development, cadets,et c). Account managers are provided little flexibility in handling these accounts and are normally required to seek PMB approval for adjustments to them.

Notwithstanding the view held by some of the senior managers interviewed, the Committee is of the opinion that the availability of financial and non-financial management information is not aligned with strategic-level decision-making requirements. For example, there is little overall corporate visibility with respect to the approximately $1.8 billion in annual National Procurement expenditures. This situation results, in part, from the discrepancies between the stated management philosophy and the actual manner in which the Department and the CF manage the Defence Services Program, as well as from the earlier noted weaknesses associated with the performance and risk management regimes.

Finally, the Committee believes that the roles and responsibilities in resource management and reporting of the Assistant Deputy Minister (Finance and Corporate Services) and the Vice Chief of the Defence Staff have become unnecessarily blurred and need to be updated and realigned under the Government's new policy for Modern Comptrollership. The current arrangement of mixed and somewhat conflicting responsibility for financial management between ADM(Fin CS) and the VCDS brings with it limitations to effective accountability. The Senior Financial Officer's accountability to the Deputy Minister for prudent and efficient management and control of financial resources must be acknowledged, clearly understood, and respected within DND and the CF.

The *Policy on Responsibilities and Organization for Comptrollership* issued by the Treasury Board Secretariat of Canada defines Comptrollership as comprising the essential, integrated business processes that must be in place in any organization to: manage financial risks; understand the financial implications of decisions before they are taken; report on financial results; and protect against fraud, financial negligence, violation of financial rules or principles, and losses of assets or public money. The policy includes the following key directives.

- Deputy heads must designate a Senior Financial Officer (SFO). The Senior Financial Officer must have a direct reporting relationship to the deputy head. Depending on the size of the organization, the Senior Financial Officer may delegate his or her authority for key financial responsibilities to a Senior Full-time Financial Officer (SFFO).
- The SFO must devise and implement a financial management organization and processes in the department that will lay the foundations for good comptrollership.

- The SFO must work with managers at all levels in the organization to ensure that they exercise their comptrollership responsibilities properly. Procedures under the policy require, *inter alia*, that: Departments must include the SFO when developing and implementing new programs or major projects, or when making changes to existing programs that will have or are likely to have material financial implications. This will ensure that departments assess financial risks, respect financial authorities, and implement efficient and effective financial controls before programs are put into operation. The SFO must draw on government resources that are available to assist in the planning of programs.

In addition, the Committee has noted a number of steps that have been initiated, and, if brought to fruition, will improve the current situation. They include:

- inclusion of risk assessments and program impacts in program and project analysis, albeit at a rudimentary level;
- the adoption of a five-year review cycle that should force the regular assessment of resource utilization against assigned roles and tasks;
- the adoption of new processes for performance management across DND and the CF and the use in decision-making of information and results being provided from improved performance management; and
- the evolving inclusion of functional perspectives (such as infrastructure and information management/information technology) to increase 'horizontal' program coherence.

Recommendation 8. A Strategic Focus for Resource Management

The Committee recommends an improved strategic focus to resource management, including the following actions:

a. ***the DM and CDS should focus on making strategic level resource allocations based on a Level Zero Strategic Plan (currently issued in the form of the Defence Plan), augmented by a sound Strategic Capability Investment Plan including the following elements – capital equipment, construction, National Procurement, human resources, IM and communications plans;***

b. ***a more forward looking approach to resource management should be adopted in which resource inputs are better linked to results or outcomes and to identified risk management strategies;***

c. ***the onus should be placed on Level One managers to make necessary trade-offs in consonance with corporate priorities, in fulfilling the objectives, goals and outcomes required from their respective Business Plans, with only exceptional issues that go beyond the scope of these Plans being raised to the corporate level for guidance or resolution;***

d. ***as a key element of this approach, Defence's annual corporate priorities should be refined and clarified so as to be of better assistance to both corporate and Level One managers in decision-making;***

e. ***senior management information requirements should be more clearly specified and the necessary steps taken to ensure that the information required to support strategic decision-making is readily available in user-friendly report format; and***

f. ***information presented in support of strategic decision-making must provide senior management with a balanced assessment of the impacts and risks associated with a particular course of action.***

Recommendation 9. VCDS/ADM (Fin CS) Responsibilities

The Committee recommends that the roles and responsibilities of ADM (Fin CS) and the VCDS should be realigned and updated in consonance with the Government's policy on Modern Comptrollership. This should include the following key considerations.

a. ***The ADM (Fin CS), as the Senior Financial Officer for DND, would be accountable and responsible to the DM for all finance functions, resource management[10] and reporting at the strategic level and responsible to both the DM and CDS for finance functions related to CF operations at home and abroad, and responsive to the CDS for financial advice and guidance. The VCDS would be the advisor to the DM and the CDS on the allocation of resources against military priorities from within the strategic allocations[11] and in dealing with the major operational and program issues that impinge on the achievement of the desired outcomes or results.***

b. ***In practice, this re-alignment of responsibilities would enable the VCDS to focus his efforts on:***

- ***strategic planning - to include the development of the Level Zero Strategic Plan, based on the multi-year strategic financial planning levels, including those approved by the DM, in consultation with the CDS, for each of the DM's Level One direct reports;***
- ***the integration of business planning, risk management and performance management as a basis for the strategic allocation of resources against military priorities; and***
- ***those issues that would have a strategic impact on DND and the CF, and/or would require adjustments to existing priorities.***

c. ***ADM (Fin CS) would then be better positioned to:***

- ***carry out responsibilities for liaison on all financial and budgetary matters with the Treasury Board Secretariat, the Department of Finance and the Privy Council Office;***

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[10] This would encompass responsibilities relating to the maintenance of the long-term financial plan for Defence, dealing with central agencies on the defence budget, updating financial projections by Vote and by major category of expenditure to reflect adjustments for inflation, special allocations, etc., advising the DM, CDS and VCDS on issues regarding the strategic management of funding (Senior Financial Officer responsibilities, balance, affordability, financial risk, over-programming, etc.), for Defence. ADM (Fin CS) would be the primary advisor to the DM for the allocation of resources to Level One managers reporting to the DM, with the exception of corporate accounts that support the operations of the CF (e.g., national procurement).

[11] The long-term financial plan for Defence contains allocations to capital, national procurement, etc. The VCDS would advise on priorities within and between these allocations in close consultation with ADM(Fin CS).

- ***maintain the financial planning and accounting systems required to support the annual and longer-term financial and budgetary framework needs of DND and the CF;***
- ***provide in-year management of those financial issues that were beyond the capacity of Level One managers to resolve[12]; and***
- ***execute the Senior Financial Officer's responsibilities in financial management and reporting.***

Recommendation 10. Business Planning

The Committee offers the following recommendations to strengthen the business planning function:

a. ***business planning should be based on a model in which the DM and CDS make strategic level trade-offs between Departmental and Canadian Forces priorities, based on the work-up of the DND and the CF strategic financial plan prepared by ADM(Fin CS);***

b. ***the longer-term strategic resource management framework should set out the multi-year allocation of resources to the direct reports of the Deputy Minister and the multi-year allocation of resources for personnel, operations and maintenance (O&M) and capital funding for the Canadian Forces;***

c. ***this long-term resource management framework and the multi-year allocation of resources would in turn be used as input for the development of the annual Level Zero Strategic Plan (the Defence Plan), including the SCIP (functional managers would be accountable for preparation, for approval by the DM and CDS, of central functional plans including the Strategic IM, the Civilian Human Resources, the National Procurement, infrastructure and the National Defence Communications plans);***

d. ***Level One managers would then prepare business plans that conform to their objectives, goals, assigned tasks and allocation of resources, as well as to the direction and guidance contained in the functional plans;***

e. ***Level One Business Plans would then become the vehicle around which the allocation of resources to each Level One manager would be reviewed and decided, with tradeoffs being made, where required, with a full knowledge of the impact on the outcomes set out in the Business Plan;***

f. ***Level One managers should then be empowered to make trade-offs within the approved scope of their Business Plans, based on potential impacts and risk mitigation strategies;***

g. ***the achievement of results or outcomes could then be monitored against Business Plans through a more strategic approach to performance management and performance reporting (these plans could then be used***

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[12] Matters of financial management that are beyond the ability of Level One managers to manage within the scope of approved Business Plans would be referred to ADM(Fin CS) for resolution. Those issues that cannot be resolved by ADM (Fin CS) or that impact strategic results would be referred to the VCDS for resolution either within the scope of that office's authority or before JCRB/PMB for consideration on a 'management-by-exception' basis.

more effectively as management tools, allowing Level One managers more flexibility in managing their existing resources); and

h. ***Business Plans should cover three years, with the focus on years two and three of the plan being more strategic in nature, thus requiring senior managers to adopt a more forward-looking view and to provide a more predictable paradigm for Level One resource planning.***

Recommendation 11. Corporate Accounts

The Committee recommends the following enhancements beyond the existing approach to corporate accounts:

a. ***the number of corporate accounts should be reduced to the absolute minimum required, with budgets allocated to the greatest extent possible, through the normal business planning process;***

b. ***the day-to-day management of corporate accounts themselves should also be incorporated into business plans, along with increased managerial flexibility within the scope of approved business plans; and***

c. ***this would necessitate the inclusion of corporate account spending into the business plans of the responsible Level One manager (e.g., capital equipment, National Procurement, capital infrastructure funding, etc.) as a basis for establishing accountability, performance reporting and performance management.***

Recommendation 12. Roles of JCRB and PMB in Resource Management

The Committee recommends that the roles and responsibilities of JCRB and PMB should be revised so as to provide a means for requiring Level One managers to come forward for guidance or decisions that go beyond the scope of their own Business Plans, or that have a substantial impact on prescribed outcomes as set out in Business Plans or in the Defence Plan. This would require sound judgment and extensive consultation in setting the precedents for the kinds of issues that should be brought forward under this requirement.

Recommendation 13. Performance Management

The Committee offers the following recommendations aimed at building on Defence's recent progress with regard to performance management:

a. ***in addition to the 'vertical' five-year cyclical reviews, periodic 'horizontal' reviews should be executed to ensure consistency of approach and effective resource utilization across the various functions (human resources, information management/information technology, infrastructure, equipment life cycle support, etc.); and***

b. ***more specific linkages between business plans and their results, outcomes and senior manager's performance appraisals, including 'at-risk' pay, should be established.***

Management Preparation

The Committee believes that the Department of National Defence and the Canadian Forces suffer from a relatively high 'churn rate' of senior military officers and civilian executives at the Director level and above, with many spending relatively short periods in each rank and in individual assignments. This situation is compounded by the fact that the majority of a military officer's training in the earlier years of his/her career is operationally oriented, with limited focus on acquiring the skills required for the strategic direction and management of Defence as a large public institution within the federal bureaucracy. Within this context, it is also important to be able to both manage and work within the machinery of government, and to be able to leverage relationships at the most senior level with other stakeholders.

In addition, and noting there will always be exceptions to the norm, senior military officers tend to be promoted to the rank of General/Flag Officer too late in their careers to provide them with sufficient time to acquire the desired scope and depth of experience at progressively senior rank levels. In the end, those officers reaching the most senior ranks tend to have spent too little time in the rank of General/Flag Officer. This has a direct impact on the collective experience, continuity and overall management effectiveness of the cohort of the most senior ranking officers. It is a situation which can lead to a short-term focus on issues, a transactional approach to decision-making, and an inherent desire to reach consensus among all interested parties.

The Committee is strongly supportive of the initial steps taken by the current DM and CDS to improve both succession planning and senior management preparation. In the case of the CF, this includes increased focus on both senior officer and senior non-commissioned member professional development and exposure to strategic issues. The Committee is cognizant of the requirement for a long-term commitment in this area; such a commitment will be key to success.

Recommendation 14. Management Preparation

In addressing this issue, the Committee notes both the constraints under which DND and the CF operate and the time required to implement strategic change, particularly in the area of organizational culture. This having been said and building on the progress recently made, the Committee believes that:

- ***a.*** ***the CF must place greater focus on preparing selected military officers for institutional leadership (This will entail earlier promotion for promising Colonels and Brigadier-Generals, more tailored employment patterns and succession planning that provides improved opportunities to acquire experience in strategic-level leadership within NDHQ. It should also involve increased exposure of senior officers to machinery of government issues, including the greater use of secondments to other government departments);***
- ***b.*** ***those officers who will rise to the most senior positions must be provided with appropriate exposure as they move upwards in the rank structure, such that they will have been members of the senior cadre for sufficiently***

long periods to enable them to bring depth of experience, stability and continuity to the organization; and

c. ***these principles apply equally to the preparation of civilian executives.***

Approach to Change

As a general observation, the Committee was struck by the fact that Defence has not consistently moved forward on the many excellent recommendations contained in the plethora of reports and reviews conducted over the past decade. This suggests a failure to execute change, particularly at the strategic-level, and inevitably calls into question the commitment of senior management to change within the organization. Defence does have a well developed, albeit inconsistently applied, change management framework but it is largely focussed on continuous improvement. The Committee also observed that the organizational culture of Defence is largely resistant to large-scale change, most likely as a result of:

- a lack of experience in applying strategic change management;
- a generally low tolerance for risk, compounded by the inconsistent application of risk management;
- organizational inertia and a preference for the *status quo*;
- the short duration of senior management tenure;
- the MCCRT downsizing experiences; and
- change fatigue.

The lack of a central driver of change compounds this situation and results in a situation wherein change provisions are on an 'opt-in' basis. Insufficient linkages exist between organizational change and performance management.

The Defence 'change agenda' is somewhat unfocussed and lacks clear priorities, as evidenced by the 2003-2004 Defence Plan, which contains approximately 60 formal 'Change Initiatives' assigned to various Level One managers. The Committee believes this lack of focus distracts effort from the critical issues that have the most positive impact on Defence. In addition, new change tasks do not seem to be linked with transitional and steady-state resources, corporate priorities are too general and do not form an adequate basis for decision-making, and the successful implementation of change is not linked directly to senior management's performance management agreements. Of fundamental importance, the incremental approach to change is not conducive to the CDS' aim of transforming the CF. In this respect, the shortcomings in Defence's approach to change mirrors that of many other issues – a preference for the transactional over the strategic.

As with many other issues highlighted in this report, DND and the CF have undertaken a number of initiatives aimed at addressing recognized deficiencies. Under the leadership of the VCDS, good progress appears to be underway in pursuit of continuous improvement, including the establishment of Continuous Improvement Working Groups, the 'Innovative Practices Exchange' and other forums for sharing best practices, and a Strategic Change Investment Fund. Under the rubric of planning related to the SCIP, the CF is now developing a better understanding of 'transformation'. In addition, improvements in performance measurement and performance management should result in a better awareness of strategic-level change requirements. As well as strategic-level change initiatives, there will be an on-going need for continuous improvement and change management within each Level One organization, and this should continue.

Recommendation 15. Strategic Approach to Change

The Committee believes that Defence must go well beyond its current incremental, continuous improvement focus and:

- ***a.*** ***adopt a more strategic approach to change that is driven by senior management, linked to the improved achievement of results, with the desired outcomes embedded in business plans and performance management agreements;***
- ***b.*** ***ensure an improved understanding of 10-15 year target capability end-states, which, in turn, will provide goals linked to desired results and outcomes;***
- ***c.*** ***continue to include specific 'Change Initiatives' in the Defence Plan, but ensure that they remain focussed on strategic issues, be reduced in number to those that will have the greatest positive impact and be allocated transitional and steady-state resources where necessary; and***
- ***d.*** ***establish 'stretch targets' as change management goals that are achievable and create a better understanding of both the cost of obtaining these goals and the expected benefits to be achieved in terms of results or outcomes.***

Recommendation 16. Continuous Improvement

The Committee notes the current VCDS-led continuous improvement initiatives and recommends that these be supported, but that the number of dedicated staff functionaries involved, across Defence, should be rationalized and given a facilitation role rather than one of leading change.

Recommendation 17. Corporate Priorities

The Committee is of the view that more specific wording is required in the formulation of corporate priorities, in order to ensure clarity and usefulness in decision-making throughout the organization. These priorities should be ranked, to assist lower level decision-makers in making trade-offs.

Recommendation 18. Change Management

The Committee strongly believes that strategic change should be driven from the top by the DM and CDS and, where appropriate, embedded in the scope of responsibilities of Level One managers, with these managers playing a stronger role as champions of change.

Concluding Remarks

In formulating its recommendations on governance, the Committee does not underestimate the potential challenges to implementation, principally deriving from the impact on Defence's organizational culture. This having been said, each of the recommendations offered herein is readily achievable, through the authority of the Minister, the DM or the CDS. While it is difficult to quantify the impact of many of these recommendations, improving management effectiveness should result in very significant savings in dollars, personnel and time. The resulting improvements in organizational focus should have lasting, positive follow-on impacts, including a significant reduction in unnecessary activities and a resultant saving in overhead resources that can be freed up for reallocation to the 'field'.

Procurement

The Committee examined various phases of the materiel acquisition and support process, from the definition of new requirements to the disposal of surplus systems, throughout the equipment management life cycle. It discussed the procurement process with several officials in Defence, Public Works and Government Services Canada (PWGSC) and the Treasury Board Secretariat.

Overall, the Committee concluded that the Government's procurement process is slow and arduous. Although there may be legitimate reasons for the level of scrutiny involved in government procurement, the system is overburdened with reviews and duplication of effort. The Committee also concluded that DND's approval processes are adversely affected by an unreasonably high aversion to risk.

Indeed, the Committee found that the business of procuring military materiel is so big and unique in terms of value, complexity and volume as to warrant a dedicated procurement agency or division. The Committee also concluded that the current split in mandate between DND and PWGSC for the acquisition of goods and services results in the inefficient use of government resources.

In addition, Defence's internal process for defining requirements and approving capital projects takes too long, involves too many authorities and committees, occupies too much senior management time for little added value, and fails to distinguish between processes on the basis of risk and complexity. These aspects of the procurement process are wholly within the purview of Defence to revise and can, therefore, be readily addressed as a priority.

The Committee also concluded that the 'bottom up' process for initiating and approving projects leads to a capital program that lacks vision and priority, and exceeds the resources approved by Government. A 'top down' process would be driven by strategic needs and considerations, with a greater likelihood of having ongoing relevance and support. As well, there is a tendency to approve capital projects based primarily on equipment costs, rather than all facets of the capability and life cycle cost elements including training, infrastructure and human resources. As noted in the previous section on governance, the Committee understands that Defence is already taking steps to address these deficiencies and endorses and encourages these efforts.

The Committee was also encouraged to learn that Treasury Board's Procurement Reform Initiative is addressing other aspects of the procurement process that impede the acquisition of goods and services in the most efficient and effective manner. Their work addresses constraints imposed by trade agreements, the role of the Canadian International Trade Tribunal, the simplification of contracting regulations, and encourages greater use of acquisition cards for low dollar value, simple requirements. The Committee fully supports this work and believes it will improve the procurement process.

As well, the Committee understands that numerous initiatives are underway in DND in the area of acquisition reform, including:

- developing and implementing procurement strategies which maximize industry's potential to provide goods and services (in the areas of training, site support, in-service support, etc.);
- cooperating with Allies in the acquisition of materiel, which increases interoperability while, concomitantly, reducing the time and cost of procurement;
- refining and promulgating policy (e.g., enhancing the application of the commercial off-the-shelf policy); and
- standardizing materiel acquisition and support policies for easy reference in a desktop application.

Finally, PWGSC also has various initiatives in place to improve procurement, including:

- efforts to provide more integrated, strategic and client-centred services (these efforts follow a recent reorganization of PWGSC, which, in turn, is based on a comprehensive internal review conducted in 2002 that identified areas within PWGSC that potentially contributed to delays and inefficiencies in the procurement process);
- development and implementation of a strategic approach to electronic procurement through the Electronic Supply Chain initiative and the related Canada Marketplace Project;
- improvement of the partnership with DND through the use of Integrated Project Teams in all major projects and increased co-location, when feasible, of PWGSC personnel with their DND clients; and

- participation with DND in the development of acquisition best practices, such as the guide *Strategic Direction and Best Practices in Complex Procurement*.

The Committee supports these positive initiatives to improve materiel acquisition and support as it relates to Defence.

The Committee also recognizes that, as part of its effort to reduce the acquisition cycle time by 30 percent, Defence is addressing the lengthy time it takes to close a project following delivery of the main equipment. Allocating scarce resources, both money and people, at this late stage of projects must be limited to the maximum extent possible. Again, these are circumstances entirely within Defence's control.

In the area of inventory management, the Committee notes and encourages Defence's efforts to improve the process through the Materiel Acquisition and Support Optimization Project. The Committee recommends that DND also examine the issue of contractor held spares in those cases in which it believes there is potential for savings in the area of management fees and the determination of scope of protective inventory.

The Committee found that Defence should be more disciplined in the use of resources devoted to the disposal of major weapons systems and the time over which they continue to maintain such assets for potential sale.

As discussed further in the next section on information management, the Committee is also convinced that the practice of decentralized management and procurement of computer software and hardware costs more than a centralized approach. Therefore, it supports the establishment of the Enterprise Service Provider under the Assistant Deputy Minister (Information Management) as the central service provider for these items and related services.

Based on its consultations, observations and analyses, the Committee found five procurement-related areas where there is potential for significant administrative efficiencies. They include:

- the duplication or functional overlap between DND and PWGSC in the procurement of unique military assets;
- the initiation, approval and management of capital equipment projects;
- inventory management;
- the disposal of major weapons systems; and
- the management and procurement of computer software and hardware.

The following is an expanded discussion of these five areas.

Duplication between the Department of National Defence and Public Works and Government Services Canada

On the basis of its interviews and deliberations with officials from DND, the Committee believes that significant duplication of effort, or functional overlap, exists within the procurement activities performed by employees in DND and PWGSC. In fact, recognition of the involvement of both departments is documented in PWGSC's *Supply Policy Manual*, which includes a memorandum of understanding on the division of responsibilities between the two departments for the acquisition of goods and services. According to this document, there are 49 sub-activities in the process and both departments are involved in almost 80 percent of those activities.

This duplication is largely due to the fact that the governance structure for procurement holds both the Minister of National Defence and the Minister of PWGSC accountable for procurement. DND is required to ensure that the CF has the resources (people and equipment, etc.) required to fulfill its mandate, whereas the Minister of PWGSC has the legal mandate to acquire goods and services for all government departments, including Defence. The Committee understands that it is usually the Defence Minister or his officials, rather than those of PWGSC, who are required to appear before Parliament, Parliamentary Committees, the Auditor General and others to address issues that arise from the procurement of military equipment. Yet, both Ministers are required to present separate submissions to the Treasury Board for approval of projects or contracts exceeding their authority. This dual accountability structure has created a situation where both departments have numerous employees involved in the acquisition process, and this inevitably leads to duplication of activity.

The Committee believes that the duplication of activity due to this split accountability for procurement comes at a significant cost, both in terms of time and the efficient use of scarce resources. One senior official at DND posited that the Department could, if delegated the authority to do so, perform contracting functions for its unique military requirements at a savings to the federal government of approximately 150 people, which could translate into $10-15 million in personnel costs alone. He stated, and the Committee agrees, that sufficient mechanisms currently exist to allow DND to perform full contracting functions, while adhering to governmental contracting regulations and policies. The advent of electronic tendering systems, the oversight of the contracting process by the Canadian International Trade Tribunal and the Auditor General, all serve to ensure prudence and probity in the procurement process.

The Committee believes that the split accountability for the procurement of military unique requirements is fundamentally wrong. It weakens accountability and creates inefficiency by requiring the two departments to work on the acquisition of the same goods and services. The Committee recognizes that there is a definite benefit to a common procurement organization for common goods and services; this is PWGSC's specialty. However, the acquisition of specialized military equipment is unique to DND, large in scope and complex in nature. Therefore, accountability, responsibility and authority for that activity should, more logically, be assigned to a single agency. Such a move would eliminate the current high costs of maintaining up-to-date knowledge levels in two groups of personnel, assigned to executing similar aspects of a shared task.

The Committee is encouraged to learn that Treasury Board's 'Expenditure and Management Review' of PWGSC will consider different service delivery options, including the delegation of contracting authority for unique military goods to DND and hopes that it will seriously revisit the mandate of PWGSC in this regard. The Committee believes that these unique procurement needs would best and most efficiently be done by the user of the equipment or services, that is, DND. This is particularly true given the necessity for specialized analysis and specification that can be performed only by Defence experts. Furthermore, the Committee believes that the scope of the procurement of military materiel easily justifies the establishment and maintenance of a highly trained and specialized procurement group, separate from a common contracting authority.

The Committee also believes that the current level of duplication, or functional overlap, can be reduced even within the existing split accountability. The Committee is encouraged to learn that, under Treasury Board's Procurement Reform Initiative, Deputy Ministers have requested that DND and PWGSC identify their procurement processes and overlay them to highlight areas of duplication that they can then work to eliminate. This work has commenced with the recent creation of an interdepartmental working group and is vital in reducing overlap in procurement activities and improving the partnership between the two departments through better division of contracting activities. The Committee views this aspect of procurement reform as the simplest to undertake, collaboratively between both departments, in order to improve efficiencies and reduce or eliminate redundant and time-consuming duplication of effort. The Committee is of the view that completion of this task is essential as the current level of overlap is costly, unnecessary, and likely not sustainable, given the scarcity of qualified personnel in both departments and forecasted vacancies resulting from projected retirements over the next few years.

In short, there are clearly savings to be made by reducing the involvement of both DND and PWGSC in the procurement process. The Committee recognizes that some degree of overlap may be required given the current split in accountability for procurement. While the Committee cannot confirm that the delegation of additional contracting authorities to DND for unique military requirements will result in saving $10-$15 million in personnel costs - as estimated by one senior official at DND - it is certain that significant personnel and time savings will be realized.

Recommendation 19. Duplication between DND and PWGSC.

The Committee recommends that the Minister of National Defence seek the delegation of additional contracting authorities for acquisition of military unique requirements and the establishment of a specialized procurement group in DND.

If the Government chooses to maintain the dual accountability structure for the procurement of military requirements, the Committee recommends that implementation of the results of the work conducted under the Procurement Reform Initiative and the

inter-departmental review be accomplished through a written directive, in order to effect a timely separation of activity.

Capital Equipment Projects

The Committee also reviewed the process that Defence has adopted to approve and manage capital equipment projects. The Committee has a number of observations and recommendations concerning the approval process, the levels of expenditure authority, and the closure of capital equipment projects.

The Approval Process

The Committee finds that Defence's *internal* process for defining requirements and approving capital projects takes too long (nine years out of the average 15-16 year process required to procure major equipment), involves too many successive reviews, occupies too much senior management time for little added value, and fails, from a process perspective, to distinguish between common goods and complex weapons systems.

The Committee also found that the current 'bottom up' process for approving projects leads to the development of a capital program which may not reflect the priorities dictated by the capability requirements of the CF. Projects are currently approved if they complete all of the lengthy necessary steps in the process and there are insufficient points at which those projects are reviewed in progress. As a result, there are few opportunities to determine if they are still relevant and have a chance of eventual approval. As it is, the people assigned often can continue to work at defining requirements and staffing approval documentation for years, even if the project has little chance of eventual approval. The aggregate cost of projects approved in this fashion for inclusion in the long-term capital plan far exceed the funds available for capital procurement; hence, overall capital program demand is unaffordable and unfunded projects continue to slip into future years. In short, there are too many projects chasing too few dollars. This ties up scarce project management personnel who could be devoted only to higher priority projects.

No Defence officials consulted defended the current system. Rather, they generally agreed with the deficiencies identified in this report. This approval process is completely within the Department's control to change.

As stated in the previous section on governance, the Committee fully supports the development of a SCIP that will prioritize projects and ensure that all aspects related to the capability planning are considered. The Committee believes that this is essential to ensure that limited capital resources (both money and people) are focussed on the priorities of the future CF and only on that which is affordable.

The Committee proposes a revised capital approval process for consideration.[13] This process is designed to result in significant savings in the overall capital acquisition process, principally by halving the current nine-year period that it currently takes just to award procurement contracts. Adopting the recommended changes would reduce the average overall project life cycle from the current 15-16 year average to between 10-12 years by placing shorter time limits on certain internal stages of the process (for example, one to two years for requirements definition). It also incorporates decision points for stopping projects that the Joint Capability Requirements Board finds do not relate to the future requirements of the CF. As well, it incorporates a streamlined process for approving projects within the Minister's level of expenditure authority and a second process, with additional review levels, for projects that must be approved by the Treasury Board.

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[13] See Appendix 1 to Annex A.

In using this process, DND would free up critical personnel resources to execute the capital program, focus senior management time, and improve planning and execution accountabilities. There are currently between 200 and 250 people involved in defining requirements and 1,100 involved in implementing the capital program. If DND reduces the time to approve projects by 50 percent, the Committee estimates that this will 'free-up' 200 positions that could be reallocated to other capital projects or high priority areas. The value of these positions is estimated at $10 million to $15 million.

The Committee understands that the Treasury Board Secretariat's Procurement Reform Initiative will address the issue of ensuring that Treasury Board Ministers review projects on a strategic basis, rather than on dollar value alone. The Committee encourages effort in this area and notes the positive impact it would have on ensuring that all departments differentiate their management and approval of projects based on scope and risk, rather than solely on dollar value alone.

Recommendation 20. Capital Equipment Approval Process.

The Committee recommends that DND consider streamlining its internal capital equipment approval process. A proposed process is provided at Appendix 1 to Annex A for consideration.

Expenditure Authority

In 1996, the Treasury Board granted the Minister of National Defence authority to approve the expenditure of funds on capital equipment projects up to $30 million and construction projects up to $60 million. The Minister has delegated $5 million expenditure authority to the Deputy Minister and three other officials: the Assistant Deputy Ministers for Materiel, Information Management, and Infrastructure and Environment. All other Level One managers have expenditure authority up to $1 million.

As noted above, the Procurement Reform Initiative will work to ensure that the Treasury Board's review of projects is strategic, based on scope and risk rather than dollar value alone. The Committee encourages work in this area because it believes that current authority levels, based solely on dollar value, are too low throughout DND.

Once the Department has an approved SCIP, the Minister should request that the President of the Treasury Board increase the Minister's expenditure authority to $60 million, in concert with the level for construction. This would shorten, by between three to six months per project, the approval process of most projects between $30 million and $60 million. The Minister should also increase the levels delegated throughout DND. The Committee believes that, as a minimum, these levels should be doubled.

Recommendation 21. Expenditure Authorities

The Committee recommends that the Minister seek increased levels of expenditure authority to $60 million for capital equipment projects and increase the levels delegated throughout DND.

Capital Project Close-Out

The Materiel Group, led by the Assistant Deputy Minister (Materiel), has been working on speeding up project close-out as a means of reducing the overall equipment acquisition cycle time by 30 percent. In the course of this Group's work, they found that many projects officially linger on long after prime equipment has been delivered (five to seven years or more in some cases).

There are some valid reasons for keeping projects open following delivery of the main equipment, including the need to correct deficiencies or address requirement shortcomings, the need to accept delivery of integrated logistics support or establish in-service support requirements and the need to resolve contractual issues. These reasons are certainly valid but should be dealt with expeditiously, closing projects as soon as possible to free up scarce project personnel resources and money to be redirected to higher priorities.

Recommendation 22. Capital Projects Close-Out

The Committee recommends that DND continue its efforts to close capital projects as soon as possible.

DND could do this by:

a. linking success in closing projects 'on time' to the performance assessment of the Project Manager;
b. developing and implementing motivation bonuses to encourage the early closure of projects; and
c. critically reviewing projects at their forecast closure dates or if systems are delivered earlier, to determine what work remains, whether it is required, how it should be completed and how it should be funded.

Inventory Management

The Committee understands that, as part of the Materiel Acquisition and Support Optimization Project, inventory holdings for Defence will be rationalized to determine what is obsolete or excess to requirements. The project will see to the disposal of such equipment and then optimize the handling of the required inventory. Project staffs have identified revenue from the sale of excess materiel to be in the order of $28 million, as a one-time savings for the project; there is reason to conclude that ongoing avoidance of such excesses will result from this initiative.

The Chief of Review Services' 1996 survey of DND's inventories held by contractors indicates:

> "...that as of 31 March 1995, contractors held $363 million of DND-owned spare parts and had accumulated approximately $209 million (58 per cent) in excess of one year's requirements. The annual costs resulting from these excess inventories are estimated at $30 million to $40 million. We attribute the main cause of these excesses to an imbalance in risk and responsibility for spare parts management between DND and the contractors, a spare parts policy that requires clarification and deficiencies in the management control framework."

Following the audit, DND conducted pilot projects of contractor-held spares and realized some savings. However, due largely to resource constraints, examination of the issue was not expanded to all contractor-held, DND-owned spares. Experience with the pilot projects indicated that the potential savings estimated in the audit report are excessive. The Committee understands that savings of $10 million are achievable in two to three years, if coupled with a significant investment of time by life cycle managers of the spare parts. As of March 31, 2003, contractors held $540 million of DND-owned spare parts.

Recommendation 23. Contractor- Held Spares

The Committee recommends that the Assistant Deputy Minister (Materiel) critically examine the current inventory of contractor-held spares with a view to reducing it to the maximum extent possible and ensuring optimal levels of spares are held in the future.

Disposal

DND disposes of spares parts as well as major weapons systems. The Committee found that the processes for disposing of spares through PWGSC and surplus vehicles through a marketing company are effective, but the process for disposing of major weapons systems could be improved.

The decision to declare major weapon systems surplus is made by the sponsoring Environmental Chief(s) of Staff with concurrence from the Vice Chief of Defence Staff, Chief of the Defence Staff and Deputy Minister, and normally the Minister. The Assistant Deputy Minister (Materiel) has a directorate responsible for the disposal of surplus equipment. In the case of major weapons systems, it normally asks PWGSC to contract with a marketing firm for the disposal of surplus systems on a commission basis. Defence retains the revenue from the sale of major weapons systems. These funds accrue to general revenues and are allocated to priority areas across the Defence Services Program.

In most cases, the Assistant Deputy Minister (Materiel) and the Environmental Chiefs of Staff bear the cost of maintaining surplus equipment in a useable state while it is being marketed for sale. This means that scarce operations and maintenance funds are diverted to supporting surplus equipment rather than being allocated to operational fleets. In addition to support costs, there are often demilitarization, environmental cleanup and/or transportation costs prior to sale. The directorate responsible for disposal is not allocated a budget to cover these costs, so it must continuously 'convince' other parts of Defence that the requested expenditure is justified to get the best value in a sale. The absence of a separate disposal budget also means that the cost of maintaining the surplus equipment is not readily visible.

The Committee also found that the decision to continue maintaining weapons systems in useable condition for sale (as opposed to discontinuing maintenance and selling 'as is' or breaking them down and selling for parts or scrap) is made largely within the division responsible for disposal, even though other parts of the organization fund the maintenance of the equipment.

The Committee noted that Defence has an extensive list of equipment that has been, or is expected to be, declared surplus. [Text severed from the original Report to protect competitive interests of the Crown. --.]

[Text severed from the original Report to protect competitive interests of the Crown. --.]

Recommendation 24. Major Weapons Systems Disposal

The Committee recommends that DND and the Canadian Forces be more disciplined in the use of resources devoted to the disposal of major weapons systems and the time over which they continue to maintain such assets for potential sale.

In particular the Committee recommends that:

- *a.* ***when DND declares equipment surplus and decides that it should be sold as a useable asset, it establish a sunset clause to identify how long it is committed to maintaining the equipment[14];***
- *a.* ***DND establish a separate account and a separate budget to fund the costs of disposal in order to provide cost visibility, regular re-validation of the prospects for sale, and for those circumstances where prospects are deemed to be good, to help ensure the equipment is properly maintained so as to uphold its sales potential;***
- *b.* ***DND adhere to the planned life cycle for equipment, including clear timelines for disposal, and that the directorate responsible for disposal work with others in the Department to determine the optimal period to declare equipment surplus (i.e., when high demand from prospective buyers would yield the greatest returns);***
- *c.* /Text severed from the original Report to protect competitive interests of the Crown.---***]; and***
- *d.* ***DND critically review the disposal activities and prospects for sale for the other major systems it has already declared surplus in order to identify further opportunities for savings (DND needs to balance the desire to get the most money possible from the sale of surplus assets against the time and money devoted to those goods at the expense of ongoing operational requirements).***

Management and Procurement of Software Licences and Information Technology Hardware

Under Defence's current decentralized management model, each Level One manager has authority to purchase software and information technology (IT) hardware. Level One managers determine their requirements without reference to a single configuration management authority and initiate procurement through regional offices of PWGSC or through the Assistant Deputy Minister (Materiel) in DND, who deals with the national office for PWGSC.

The Committee found that Defence does not have a comprehensive and accurate inventory of software licenses and hardware. One organization may have surplus capacity that another organization could use if it was aware this surplus existed. The Committee believes that this results in unnecessary, additional costs, but cannot forecast how much because there is currently no central visibility into departmental assets for software and information technology hardware.

As discussed further in the Information Management section of the Report, the Committee recommends that DND establish an Enterprise Service Provider (ESP) under the Assistant Deputy Minister (Information Management) as the central service provider.

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[14] If the equipment is not sold within that timeframe, it could be sold as is, broken up or sold for parts or scrap.

ADM (IM) would assume responsibility for inventory and configuration management of these goods and provide consolidated and forecasted requirements to ADM(Mat) for procurement action.

The Committee was also told by PWGSC and DND procurement officials that Defence does not fully realize the savings and efficiencies offered by consolidating requirements under existing or planned government-wide procurement vehicles (such as National Master Standing Offers) and discount processes. Rather, Defence often obtains its required software licenses and/or hardware on a piecemeal basis or by using 'more tailored', but less efficient, procurement vehicles.

The Committee believes that DND should maximize the use of government-wide procurement for common requirements in order to leverage government level buying power and maximize savings, and should restrict the creation of individual procurement vehicles to situations where existing vehicles cannot meet their basic requirements. PWGSC estimates that Defence could conservatively save 10 percent on commercial off-the-shelf software and 25 percent on common hardware purchases for an estimated total savings of $15-$20 million annually. Partnering with PWGSC as the contracting authority will be essential in the efforts to consolidate requirements and to ensure that the government-wide procurement vehicles made available by PWGSC meet the requirements of DND to the maximum extent possible.

Recommendation 25. Inventory of Software Licenses, and Computer Hardware and Consolidation of Requirements

The Committee recommends that Defence increase the visibility into departmental assets for software and computer hardware, and maximize savings in the procurement of these commodities through consolidation.

The Committee has the following specific suggestions:

a. DND should fully support the designation of the Assistant Deputy Minister (Information Management) as the central service provider for information technology and related services in DND;

b. as part of his role to centrally manage software and computer hardware, the Assistant Deputy Minister (Information Management) should work with Assistant Deputy Minister (Materiel) procurement authorities and Level One staffs to:

- ***establish and maintain hardware and software inventories that could be referenced to determine whether new departmental requirements can be met through surplus capacity or whether procurement action is required; and***
- ***forecast departmental software and hardware requirements in order to consolidate purchases to the greatest extent possible. Maximum usage of available government-wide procurement vehicles should be made for common requirements in order to leverage government level buying power and maximize savings.***

The Committee also learned that the terms and conditions of licensing agreements are often restrictive and based on individual organizational versus departmental needs, with little collaboration across Defence. Even though DND may have a licence for a given software product, it may not be able to fully use it due to the way the procurement was negotiated. For example, the contract may stipulate that the software can only be used by one organization or for one specific purpose rather than a blanket authorization for use of the software.

Recommendation 26. Terms and Conditions of Software Licenses

The Committee recommends that DND create a tighter, more disciplined review process for software license inventory and acquisition in order to enhance its negotiating position on license agreements, maximize license flexibility, and minimize costs.

This could be facilitated by designating the Assistant Deputy Minister (Information Management) as the departmental coordinating authority to collaborate with Assistant Deputy Minister (Materiel) procurement authorities and PWGSC.

Information Management

Defence has the single most extensive investment in information management[15] (IM) and associated information technologies (IT) within the public sector in Canada. The annual recurring total IM and IT investment, including people and capital projects, is in the order of $850 million[16], with expenditure authorities devolved to varying degrees across the organization. These expenditures are broken down as:

- personnel - $147 million;
- operations & maintenance (O&M) - $233 million;
- local capital (planning controlled by Level One Managers) - $164 million;
- capital projects - $130 million;
- facilities - $2 million; and
- National Procurement (maintenance services, etc.) - $180 million.

In its review of IM, and the associated IT, the Committee examined three main areas for potential savings and efficiencies. They were:

- IT services in the National Capital Region;
- Enterprise Resource Planning applications; and
- IM services.

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[15] Information Management includes the planning, coordination and control of the acquisition, analysis, processing, integration, distribution, use, safeguarding and disposal of information supported by the associated technology and resources to ensure that the value of that information is identified and fully exploited.

[16] Costs are associated with CF Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR) capabilities, corporate and administrative information systems and common information systems and infrastructure across Defence. Costs will vary depending on the level of activity associated with capital IM projects.

The Committee interviewed key senior managers responsible for IM across Defence, and was told that this area has been thoroughly reviewed over the past decade, culminating with the recently completed IM Strategic Review (IMSR). In view of the relative currency and wide scope of the IMSR, the Committee based a large part of its examination of IM and IT on the Review's content and recommendations.

The IMSR originated in response to growing concerns regarding the impact of IM and IT on the business of Defence[17] and rising costs in this area. This review differed from the other IM reviews of the past 10 years, in that it:

- was more comprehensive;
- focussed on overall governance and business issues related to IM and IT;
- involved greater consultation across the entire institution; and
- was sponsored by the Deputy Minister (DM) and the Chief of Defence Staff (CDS), and led by the Associate Deputy Minister with all Level One managers engaged.

The IM Strategic Review confirmed those areas in which Defence has been deficient and which are recognized throughout the public and private sectors as being critical enabling activities that support the efficient use of any organization's investments in IM and IT. It also showed that effective information management is a departmental and CF-wide issue and served, with very few exceptions, to validate the conclusions and recommendations of the preceding decade's reviews.

In addition to the IM Strategic Review, the Committee was informed that numerous efforts continue to be undertaken to rationalize IM and IT services, inventories and costs, in order to realize related savings and efficiencies. However, the resulting savings have, to date, generally been reallocated locally to meet a seemingly insatiable demand for information and technology. For example, the Information Management Group, led by the Assistant Deputy Minister (Information Management), continues to be active in identifying and implementing efficiencies in delivering basic information management and technology services. One such example is a recent initiative[18] that resulted in cost reductions in the order of $12 million to $15 million annually in operations and maintenance (O&M) expenditures. These savings and efficiencies were achieved through consolidating and outsourcing national telecommunications services, rationalizing IT infrastructure in the National Capital Region (NCR), and procuring Defence-wide common e-mail and office automation suites. Resulting savings have been rolled back into providing IT services to meet burgeoning user demands.

The Information Management Group has also been active in improving organizational performance in those areas that contribute to success in IM and IT capital project delivery. These include:

- consolidating administrative and common aspects of project management;
- adopting project management best practices and integrating industry

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[17] In this context, the business of Defence includes Departmental activities and Canadian Forces operations.

[18] Over the two years preceding the Committee's mandate.

recognized professional project management standards and training into development of DND project teams;
- promoting user involvement and sense of ownership;
- enhancing executive management support;
- promoting the development of clear and consolidated statements of (business) requirements and proper planning; and
- promoting the establishment of realistic expectations and milestones.

One key result of these efforts has been the establishment of an IM Project Management Centre of Excellence, which operates in accordance with industry best practices. The Centre of Excellence focuses on improving the success of individual projects by creating an environment in which a longer-term, integrated view to IM project management is taken. A portfolio approach is used for projects, depending on which business line the project is supporting, which improves risk management. Project managers and staffs are trained, developed and certified to ensure they have the skill and knowledge to fill these key portfolio or project positions. After five years, the Centre of Excellence approach has demonstrably improved the success of IM projects, enhanced senior management participation in projects, and has resulted in significantly improved IM project management credibility with both clients and other project management professionals within the National Capital Region. Additionally, the Department now has a highly trained, certified group of project managers who see project management as a career and Defence as an employer of choice.

That said, DND continues to face significant IM and IT challenges. Key issues include:
- staff expectations of technology are high;
- current business and operational demands and expectations preclude the consideration of any reduction in capability in the IM or IT services domains;
- the current system is characterized by decentralized planning by Level One organizations, lack of a horizontal (enterprise) perspective, and fragmented IM and IT design, specification, operation, and procurement;
- procurement policies that are not conducive to achieving business efficiencies;
- the decentralized management of both central and local IT and IM infrastructures, most evident in the multiple help desks that exist throughout the Department;
- poor cost and inventory visibility; and
- low confidence in the Enterprise Approach and its supporting structures[19] recommended by the IM Strategic Review.

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[19] The Enterprise Approach is a recognized trend in the public and private sectors. It facilitates:
integrating IM activities and investments into the larger (Defence) picture in order to satisfy the current and future (business and operational) needs of the organization as a whole;
- ensuring that decisions about which IM projects to undertake – when and how – are deliberate 'enterprise' decisions, not service line decisions. It demands organizational cohesion;
- supporting an integrated information environment in order that the right information is delivered to the right place at the right time;

Furthermore, from an organizational perspective, overall governance of IM and IT is lacking, accountability is broad and diffused horizontally, and authority is narrowly defined. In addition:

- an uneasy compromise exists for IT infrastructure[20] support;
- service and support quality is seen as mixed;
- complete Service Quality reporting is lacking;
- there is a tendency to support the same products or services across multiple organizations;
- there is excessive inventory for total service provided; and
- the Department's investment is currently heavily weighted on non-core IT (hardware and software), which limits the resources available for tackling the potentially higher-value core IM and Knowledge Management (KM) issues that in turn support business and service delivery transformation challenges, all of which hinders efforts to capitalize on other opportunities.

IT Services in the National Capital Region

The National Capital Region (NCR) is the most complex for Defence in terms of administrative and corporate management, and the provision of common IT services[21]. The NCR comprises National Defence Headquarters (NDHQ) and a multitude of supporting units represented by close to 14,000 IT users located in more than three-dozen facilities. IT is managed in a devolved environment that results in service standards being inconsistent, a lack of cost and inventory visibility, and poor user satisfaction.

The Committee was informed that the Department is moving forward on a number of fronts to strengthen IT services in the NCR. These efforts, which are consistent with the IM Strategic Review, include:

- reducing the high dependence on costly IM and IT professional services by expanding the number of public servants in those positions wherein employment of a public servant is demonstrated to be more cost-effective;
- strengthening the ability to track IM and IT expenditures through

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- avoiding overlap and duplication, and emphasizing collaboration; and
- recognizing and treating, by means of an Enterprise Model developed specifically for the organization, IM as a pervasive 'pan-organizational' or horizontal function. .Supporting structures include a centralized or single common service provider, enterprise-wide configuration control of systems, networks, hardware and software, consolidated procurement authority, enterprise-wide service standards, governance, etc.

[20] The IT infrastructure includes all domestic and deployed networks, network equipment and services and all categories of personal technology (including desk-top and cellular phones; desk-top, laptop and hand-held computers, hand-held wireless devices); and the associated user services (such as equipment acquisition and installation,Internet service and Help Desks).

[21] In general terms IT services are those provided directly to users and can be categorized into three sectors:

- Desktop Services – including personal technology (desk-top and cellular telephones, desk-top and laptop computers, and hand-held wireless devices – including, for example, personal digital assistants) and the associated services such as equipment acquisition, maintenance, and on-going management of PC hardware and software assets;
- Help Desk Services – provides end-user technology-related problem management and resolution; and
- Networked Systems Management – includes the implementation,operation and management of Local Area Networks (LANs), network enabling hardware and software, network-connected systems (the IT Infrastructure) and other shared IT resources.

modifications to the corporate Financial Management and Accounting System (FMAS);
- leveraging best practices to facilitate moving towards the concept of IT as a 'commodity'; and
- continuing to work with PWGSC IT service providers to leverage those areas where a department has a particularly strong capability within the NCR[22].

Also consistent with the IMSR is ADM (IM)'s proposal to establish a single entity to manage the Defence IT infrastructure and coordinate all IT services in the NCR, at CF bases across Canada, and for deployed operations. The Enterprise Service Provider initiative aims to reduce internal barriers to efficient IT services, particularly in the areas of service standards, the re-capitalization of assets and the rationalization of help desks. This will be achieved through consolidating requirements and network configurations through the establishment of common baselines for hardware and software, starting with the NCR, which is the most complex and the largest single 'consumer'.

The Committee believes that the potential short-term annual savings that can be achieved by consolidating IT services in the NCR, under the Enterprise Service Provider approach, are in the order of $6 million. With respect to reducing the Department's dependence on contracted professional services, the efforts already made by the IM Group are noted and supported.

Recommendation 27. Enterprise Service Provider

The Committee recommends that Defence proceed immediately with the consolidation of IT Services by establishing, under the Assistant Deputy Minister (Information Management), an Enterprise Service Provider (ESP) to manage Defence IT infrastructure and to coordinate all IT services, consistent with the IM Strategic Review. As part of this effort, Defence should:

a. initially focus on the National Capital Region (in order for this approach to be successful, all National Defence Headquarters and National Capital Region organizations must participate. 'opting out' must not be an option);

b. place particular emphasis on addressing service delivery standards, making responsiveness to user requirements a top priority;

c. once proven in the National Capital Region, extend the concept of operations for the Enterprise Service Provider approach to managing the Defence IT infrastructure and consolidating all IT services, including configuration management, support and acquisitions, to all Bases and facilities across Canada, and for deployed operations;

d. continue with initiatives to rationalize and consolidate the current IT infrastructure, improve cost visibility and replace contracted services with

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[22] There may be further potential to realize economies of scale through similar partnering arrangements for negotiating telecommunications rates when the current suites of contracts are renewed (expected within two years). It may be worth noting that the current rates, negotiated separately by DND and PWGSC, are approximately equal. This is a result of the two organizations being essentially equal in terms of business volume.

public servants where analysis shows potential efficiencies; and

e. ***work to separate non-core IT and core IM by 2005 in order to reduce over-emphasis on technologies and facilitate movement towards the concept of IT as a 'commodity' and to focus efforts on IM (or management of information) priorities.***

Recommendation 28. Evolve Partnership with PWGSC for IT Service Delivery

The Committee recommends that Defence continue to pursue a progressive, evolving partnership with Public Works Government Services Canada (PWGSC) to deliver IT Services in the National Capital Region, noting that:

a. ***such a partnership could facilitate the preparation of single government proposals for IT services and telecommunications rates, as well as for IT common hardware and software procurement (the two departments should target a two-year time frame, coincident with the expiration date of the current contractual arrangements for telecommunication services);***

b. ***success in this area would further serve to build confidence levels on the part of both departments in any potential future partnerships, foster mutual understanding of requirements and constraints, and manage expectations; and***

c. ***third party/independent facilitator support should be considered – either from within government or an external agent - in order to ensure potential synergies are fully (and impartially) investigated, and given that both organizations (PWGSC and DND) have significant current and projected workloads.***

Enterprise Resource Planning

The implementation of multiple Enterprise Resource Planning (ERP) applications[23] has been a focus of many complaints. The Committee heard widespread agreement from many quarters that the current ERP application situation in Defence is not sustainable in the long term, and that the status quo is not acceptable. Sunk and ongoing implementation costs are cause for concern. Over the past decade, the Department has expended in the order of $550 million of a planned $860 million in capital, plus $45 million in transition costs and $63 million in recurring in-service support[24], on these systems.

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[23] A key element that sets an Enterprise Resource Planning application, or ERP, apart from most (common or familiar) applications or systems is that an ERP integrates data and information with business processes. ERPs have also been referred to as a system or suite of applications.

[24] The current (rough order of magnitude) breakdown of Enterprise Resource Planning application associated costs are:

- Finance – Application suite vendor: SAP. Capital cost: $25 million (all expended by fiscal year 2002/2003); In-Service Support costs: $8 million annually plus $6 million non-recurring known cost increase for fiscal year 2003/2004 for upgrades and increased maintenance costs;
- Supply – Application suite vendor: MINCOM MIMS. Capital cost: $300 million (all to be expended by end of fiscal year 2003/2004); In-Service Support: $20 million annually;
- Human Resources Management (HRM) - Application suite vendor: Peoplesoft. Capital Cost $105 million (final $38 million pending approval); In-Service Support: $4 million annually; and
- Materiel Acquisition & Support (MA&S) – Application suite vendor: SAP. Capital cost: $330 million ($158 million expended); In-Service Support costs: $32 million annually starting fiscal year 2005/2006. These figures do not

The focus of attention on ERP applications within Defence has generally been on the four application suites that support the functions of the finance, materiel acquisition and support, supply and corporate human resources management processes. Each major ERP application suite was initiated in a different time frame, based on the sponsor's assessment of the requirement for addressing a particular deficiency. Moreover, their procurements predated recent trends toward convergence and integration, and were prior to the development of an integrated enterprise model[25] for Defence.

From another perspective, while these functions (finance, supply, maintenance or human resources management) are obviously important, they remain subordinate to the primary role of the CF, specifically, to provide military capability in support of government policy, roles and missions. The IM and IT needs of CF operations are being addressed through the CF Command System (CFCS) project[26]. By the strictest definition, CFCS is an ERP application (being built by DND) that should define the information environment, including the current suite of ERP applications, in support of operations and within which all other solutions must work.

The Committee understands that there are two competing approaches related to redressing Defence's ERP problem (excluding the CF Command System): adopting a single solution (one ERP application) or integrating the current ERP application suites.

On the surface, there is a strong case to move toward a single ERP application system. If a 'green field' approach could be adopted, then this would certainly be the preferred option, assuming that business requirements were clearly articulated and that a single vendor's application suite could meet the majority of current (and future) business requirements. Unfortunately, if Defence were to adopt a single ERP application for these functions, it would risk isolating itself from the rest of the federal government, in particular functional areas (e.g., civilian human resources management or finance). In short, while appearing to be the technically preferred solution, a single ERP application solution appears to be neither practical nor affordable in the larger business context.

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capture costs downloaded to other Level One organizations ECS, IM Group). In the case of the Air and Naval components, the costs to migrate legacy systems and to implement MA&S processes were $24 million and more than $15 million, respectively. It should also be noted the licensing arrangements for SAP for the MA&S function cannot be used for the financial function.

[25] An Enterprise Model articulates the Enterprise Approach. It is developed specifically for an organization. The model provides a representation, or blueprint, depicting the various functions of an organization, how they relate and their interdependencies. It shows IM as a 'Pan-Organizational', 'Pan- Defence', or horizontal and pervasive function.An Enterprise Model facilitates the identification of information exchanges, overlaps, duplications and redundant functions.

One characterization of the Enterprise Model is that any single service line may identify IM and IT requirements, but whether to invest in addressing this singular requirement and, if so, when and how, is an enterprise decision and not a service line decision. In this regard, past decisions were well intended, but often tended to offload problems which should have been resolved by the enterprise system,to an individual Level One manager. The result was a proliferation of stovepipe, non-integrated solutions that inhibited collaboration between Level One organizations, and which were inefficient and expensive to sustain.

[26] The current (rough order of magnitude) costs for the CFCS project are: Capital: $73 million ($40 million expended) and In-Service Support: $23 million annually starting in fiscal year 2005/2006. These numbers do not include other related projects comprising the Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR) package. The current costs associated with the C4ISR package are significantly greater than the demand associated with the four Enterprise Resource Planning applications, by a factor nearing four to one.

An alternate approach advocates the integration of the Department's current suite of ERP applications and other related or supporting applications (current and planned) through a 'virtual' ERP concept. The 'virtual' ERP approach would provide users with access to the information they require as if it were through a single application based on existing technology and DND business rules. The Committee's view is that the 'virtual' ERP approach is consistent with the concepts identified for the overall IM program under the IM Strategic Review and the associated implementation plan. Moreover, the Committee believes that this approach, if adequately supported, could satisfy Defence's business requirements without placing further undue stress on resources or conflicting with government procurement policies.

Based on its observations, the Committee has concluded there are no potential annual short-term savings and efficiencies attributable to ERP applications and that the 'virtual' ERP is likely the most prudent solution to this challenge. The 'virtual' ERP approach also offers the greatest potential to realize longer-term efficiencies in this area.

Recommendation 29. Enterprise Resource Planning

The Committee recommends that Defence not pursue a single Enterprise Resource Planning solution as an efficiency/savings measure. Rather, the Committee believes adoption of the 'virtual' Enterprise Resource Planning approach, coupled with acceleration of the IM Strategic Review implementation timelines, would promote timely and more effective integration. To this end, Defence should:

- ***a. continue to consolidate the oversight and management of the Enterprise Resource Planning under a single organizational entity, reporting to the Assistant Deputy Minister (Information Management); and***
- ***b. charge this entity with the responsibility to ensure lessons learned from Enterprise Resource Planning implementation undertaken to date are brought forward and factored into decisions related to the future evolution of the core IM and Knowledge Management functions.***

IM Service Delivery

IM services involve the applications and processes that utilize the Department's significant IT investment and capabilities (e.g., administration, document and records management, archiving, logistics, finance, human resource management, etc.). In its review, the Committee found that this was an area where decentralized, 'opt-out' approaches have produced significant inefficiencies.

Based on its consultations, observations and analyses, it is clear to the Committee that overall implementation of change relating to IM and the IM Strategic Review (IMSR) is progressing too slowly[27]. While there is anecdotal evidence that a number of the IMSR recommendations are being implemented, as resources permit, it appears that much of the lack of progress is due to bureaucratic 'inertia' and the organization's tendency to slow down change. As a result, this major strategic-level change initiative is being treated as any other Defence function or task and is, therefore, being subjected to the full spectrum of departmental management processes[28]. In addition, a perception exists that the IMSR has lost momentum and is no longer a priority. This may be a result of: the IMSR Secretariat being moved out of the newly appointed Associate Deputy Minister's office to the IM Group; implementation being eclipsed by other higher, short-term (operational) priorities; or an underestimation of the level of effort required to implement the significant changes recommended by the IMSR.

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[27] The Committee was provided with the latest version of the IM Review Implementation Plan dated January 2003. The plan lists 40 tasks to be completed by April 2004; however, only one task (issue letter confirming the Enterprise Model decision) had any status reported. The situation is further compounded when put in the context of nearly a decade worth of reviews, including the IMSR, which was initiated in 2001.

The Committee is very concerned with these findings. It believes that, in order to resolve the IM situation in Defence, the first hurdle will be to address the departmental governance and change management challenges, followed by the maintenance of commitment and momentum throughout the course of implementation in a manner that is consistent with the strategic priorities of Defence.

The Committee is also concerned that few linkages have been made with other change activities ongoing within the Department or with the key role of IM and the associated technologies as enablers to business and service delivery transformation. Based on this feedback and coupled with Government initiatives related to business and service delivery transformation, the Committee believes the roles of the Deputy Minister and the Chief of the Defence Staff, as original sponsors of the IMSR, should be re-visited. The aim should be to identify a champion to coordinate and lead the full suite of departmental business and service delivery transformation efforts. In the interim, the Associate Deputy Minister should continue with responsibility for implementing the recommendations of the IMSR.

The magnitude of Defence's IM and associated IT expenditures can lead to a perception that there are immediate and significant savings to be found[29]. As noted elsewhere in this report, work is progressing to rationalize costs, better manage inventories and improve procurement efficiencies. However, given that the bulk of savings to date have been directly associated with rationalizing technology, the overall savings will likely not be of the magnitude or as readily achievable as some have perceived. The Committee believes that there is sufficient evidence throughout the public and private sectors that the costs associated with information technology represent only a relatively small percentage of the overall cost of managing information. What this means is that the greatest proportion of effort in managing information technology in support of information management should be focussed on defining individual manager's and commander's information requirements and how the technology is to be used to support and transform business and service delivery – not on the technology itself. The Committee believes it is in this area where significant long-term savings and efficiencies can be achieved.

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[28] IMSR implementation is being hindered by the perceived need for study/review, regardless of the disposition of previous reviews; the need to achieve consensus prior to proceeding with each step/phase; the requirement to incorporate in business plans for implementation in the next fiscal year; the approval and staffing processes in the event a new organization is required; etc.

[29] In the limited time of its mandate, the Committee could not substantiate the perception articulated by some that there are significant immediate savings to be found in IM (and the associated IT) - in the range of $50 million to $100 million annually.

In addition, the Committee is of the view that improving the management of Defence's information, supported by the associated information technologies, represents the single greatest opportunity to transform Defence business and service delivery and achieve more effective command and control of military operations. Therefore, in order to position Defence to achieve such savings and efficiencies, up-front investment will be required to identify both the information requirements and the business and service delivery processes to be transformed. Investment in associated administrative, support and procurement information systems, with a view to achieving efficiencies in the management of this information will, in turn, provide commanders with the high-integrity information they require for operational success. Only then can further rationalization be carried out, and the attendant efficiencies and savings realized. The speed at which efficiencies, savings and transformation can be achieved will largely depend on the level of this up-front investment. Moreover, any measurable results, savings and efficiencies should be expected to manifest in other business and service delivery areas, which will profit from enhanced delivery of IM services.

The Committee concluded that there are no significant short-term savings or efficiencies attributable to IM service delivery. Longer-term savings and efficiencies will be dependent upon achieving change through business and service delivery transformation. Indeed, the IM challenge appears symptomatic of the overall governance and change management challenges facing Defence. Furthermore, Defence is at a point where business and service delivery transformation and any associated savings or efficiencies are not likely to be realized unless preceded by an appropriate IM investment. Alternatively, in the absence of such investment, significant reductions will need to be made in IT services (i.e., do less with less) to free up resources for investment in higher value IM strategies.

Recommendation 30. IM Strategic Review Implementation

The Committee recommends that Defence aggressively move forward to implement recommendations of the IM Strategic Review. As part of these efforts, Defence should:

- ***a.*** ***clearly articulate accountabilities, responsibilities and authorities and significantly improve IM governance and internal communications required to adopt an Enterprise Model;***
- ***b.*** ***direct the Assistant Deputy Minister (Information Management) to develop an annual strategic information management plan that would be approved by the DM and CDS and attached as an addendum to the National Defence Strategic Plan (this would serve as a functional plan complementing the SCIP to be used by all Level One managers as direction and guidance in the management and administration of information within their organizations and across Defence);***
- ***c.*** ***recognize the critical role of IM in supporting business and service delivery transformation initiatives and, where practicable, increase up-front investment and advance timetables; and***

d. separate the core IM and non-core IT functions, to facilitate concentration on core IM and Knowledge Management challenges, as well as to effectively deal with other business and service delivery transformation challenges and opportunities. The Defence senior leadership must be fully engaged, if the requisite accelerated pace, momentum and commitment to implementation are to be maintained.

Civilian Human Resources Management

From the start of its consultations, both civilian and military leaders in Defence repeatedly told the Committee that civilian human resource management needed to be strengthened. Indeed, one member of the senior leadership team reflected the views of several by telling the Committee: "if there is one area to address, it is this one … we need better and faster staffing, and more robust support in managing the future of our civilian workforce."

In reviewing this area, it was clear to the Committee that the challenges facing Defence in the management and administration of its civilian workforce are numerous. Like other areas of the organization, civilian human resource (HR) management is highly transactional, accountabilities in several areas are not clear, there is low risk tolerance and little to no risk management, and change has been slow. The Committee found civilian staffing particularly cumbersome. Indeed, in the view of the Committee, problems in civilian staffing have reached the point where they are undermining administrative efficiencies throughout the organization by encouraging inefficient behaviours – such as an over-reliance on professional service contracting and term and casual employees – by individual managers.

The Committee also noted, however, that many of the challenges facing civilian human resources (HR) management in Defence are 'bigger' than the Department. In terms of meeting the management needs of the federal Public Service, the human resource management framework as a whole has been considered for some time to be outdated and overly complex. The need for a serious re-examination was recognized and a federal task force was appointed to study the issue in depth. The work of that task force is now complete. Legislation (Bill C-25), which is aimed at updating the HR management legislative framework, is now before Parliament and an HR modernization initiative is being carried out by the Treasury Board Secretariat. To its credit, the Department is already taking steps to begin the implementing the changes associated with these initiatives.

Current Issues and Challenges

In the view of the Committee, many of the issues and challenges facing civilian HR management are symptomatic of the larger governance issues identified by the Committee.

Civilian HR management in Defence has a complex governance structure that, while well intentioned, is perceived by many as being unresponsive and lacking in sensitivity to client needs. The service providers appear to have a 'control-oriented' philosophy and culture in which a very time-consuming, low-risk approach is maintained without due sensitivity to the need to strike an appropriate balance between service delivery and control. With little to no risk management, virtually all transactions are scrutinized. The problem is further complicated by a generally inadequate understanding of civilian HR management rules and regulations among many military and civilian line managers and supervisors, as well as a capacity shortfall in civilian HR advisory and classification services. The administration of civilian HR services in Defence also continues to rely largely on paper-driven processes with limited use of e-solutions compared to other government departments.

It was explained to the Committee that many of these issues follow from the fact that, over time, the strategic relevance of civilian HR management has not been valued consistently across the organization. Hence, the costly investments that would have been required to stay abreast with modern HR management practices took a back seat to higher priority demands for funds. This lower priority ranking for resources is, in turn, cited as one of the main contributors to the long turn-around times in service delivery. It is also a major reason why some managers today are staffing vacant positions using mechanisms that require much less time and effort; namely, staffing with 'term' and 'casual' employees. The result is an unusually large number of employees in these categories, which has the net effect, over time, of significantly increasing staffing demands and costs. The impact and costs of these problems appear to be further exacerbated by insufficient civilian human resource management advisory and classification capacity. DND ranks below other large government departments when benchmarked against resources allocated to these activities.

Notwithstanding these observations, it was also evident to the Committee that the Department, with the support of the military leadership, has made a more determined effort in recent years to provide additional funding to put reforms in place. These reforms have been based on existing legislation and aimed at modernizing civilian HR administration in Defence. Action is underway in many areas including governance and service delivery, classification reform, recruitment and staffing, employee orientation, learning and professional development, performance measurement and management, and the integration of civilian HR management into business planning. Work is also underway to upgrade PeopleSoft to Version 8 to support e-recruiting and e-solutions. Despite these initiatives, however, significant shortfalls in service remain.

In the view of the Committee, the issue is not necessarily the quantity of resources, but their distribution. Further, the collective impact of these issues has now reached the point where they are undermining administrative efficiency across the Department and the Forces. Perhaps more importantly, it is the view of the Committee that the potential impact of these issues will likely increase in the years ahead due to emerging demographic pressures unless more aggressive action is taken in the short to medium-term.

Against this backdrop, the key issue-areas examined by the Committee include:

- the demographic challenge facing DND;
- Bill C-25 and efforts to modernize HR management across the federal Public Service;
- an assessment of the DND human resource management framework and service delivery model, specifically with respect to potential overlap and duplication;
- classification and staffing;
- the use of IM and IT to support human resource management; and
- the potential for shared common services and the delivery of common programs between the Assistant Deputy Minister, Human Resources – Civilian (ADM (HR-Civ) and the Assistant Deputy Minister, Human Resources – Military, (ADM (HR-Mil).

The Demographic Challenge

The demographic challenges facing the federal public service are well known. Canada as a whole is facing a fundamentally changing job market in which the supply of labour is ‘shrinking’ relative to demand. As a result, the Public Service is moving into a ‘sellers’ market where the demand for skilled labour is already beginning to exceed supply. In addition, because of the demographic profile of civilian employees in DND, there will be a significant surge in retirements in the near-to-medium term.

Indeed, in a 2002 Conference Board of Canada Report, *Building Tomorrow's Public Service*, it was noted:

- sixty four percent of governments surveyed in Canada (at the federal, provincial and municipal levels) already report skills shortages;
- eight in 10 of those surveyed believe that the skill shortages will continue and/or intensify; and
- those governments surveyed estimate that 44 percent of their existing workforce will retire by 2010.

At National Defence, internal research shows that:

- more than 75 percent of current executives are predicted to retire by 2011;
- more than 50 percent of employees of 26 occupational groups are eligible to retire by 2011; and
- more than 20 occupational groups are already experiencing workforce shortages.

The implications of these statistics are clear. In the view of the Committee, major human resource management issues are emerging with respect to recruitment, skills-acquisition and retention, remuneration, diversity, and workplace transformation. While the public sector may not be able to compete with the private sector on pay in some skill areas, it is the view of the Committee that Defence must explore ways to compete in the future, levering in particular those aspects relating to the job that are viewed as positive: the shared values of public service, the ability to make a difference, job security, job diversity and the quality-of-work experience.

Put simply, while the Committee supports and acknowledges the work already underway within Defence, it believes that more aggressive action is required to raise the profile of civilian HR management and administration throughout the organization in order to better position it to adapt to the changing labour market and the future needs of the institution.

Recommendation 31. Re-Engineer Civilian HR Management

The Department should accelerate and broaden its efforts to modernize and re-engineer civilian human resource management.

This broad-based effort should include the following key elements.

a. Defence should raise the profile of civilian human resource management and administration across the institution by:
  - ***making the comprehensive re-engineering of the civilian human resource management function an institutional-level priority;***
  - ***strengthening corporate reporting on civilian human resources management in Level One Business Plans;***[30] ***and***
  - ***embedding objectives and expectations for civilian human resource modernization and management renewal into Performance Management Agreements at all levels, from Level One down to the Director/Colonel level.***

b. Defence should also improve the strategic management of the civilian human resource management function by:
  - ***completing the integration of civilian human resource strategic planning with strategic capability investment planning;***
  - ***aligning the civilian human resource Performance Measurement Framework with human resource modernization;***
  - ***improving data quality, reliability and increasing the value placed on data;***
  - ***developing more robust performance metrics to better measure desired outcomes such as service quality and employee beliefs***

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[30] The civilian HR components of Level One Business Plans should be based on the guidance provided by ADM (Human Resources – Civilian) in the civilian HR addendum of the Level Zero Strategic Plan, and should identify the civilian financial and personnel information required to support effective corporate management of the civilian HR function, including planned personnel numbers (expressed as planned full-time equivalents), salary budgets, and employment equity information.

regarding the quality of their work experience and future career prospects;

- ***strengthening quantitative indicators of performance;***
- ***developing and issuing an annual strategic civilian HR plan, building on existing annual HR functional guidance;***[31]
- ***placing a high priority on the planned upgrade of the HR Management System (PeopleSoft) to Version 8.0; andmaking functional heads jointly accountable with ADM (HR Civ) for the development, nurturing, and well-being of their respective functional communities within DND.***

In this regard, functional heads should be specifically accountable for and supported by ADM (HR-Civ) in:

  - ***providing leadership in community recruitment, mentoring, retention and professional development programs;***
  - ***overseeing the development and maintenance of generic and specialized job descriptions (in collaboration with ADM (Human Resources – Civilian) for use within their community, and for putting these on-line; and***
  - ***ensuring that professional standards are being observed within Defence by auditing job descriptions and by having functional representation on recruitment and promotion boards.***

c. ***Finally, the Department should accelerate the development of strategies to address emerging demographic challenges by:***

- ***pursuing more aggressive employment strategies that make DND an attractive place to work for prospective employees -- capitalizing on public service values, career opportunities, job security, diversity, and the quality-of-work experiences;***
- ***identifying key civilian skill sets needed over the coming 10 years in terms of classification and numbers, and developing strategies for recruitment, skills enhancement, and retention;***
- ***designing external and internal recruitment processes and practices that give DND a competitive edge in attracting the right recruits in the right numbers;***
- ***collaborating with the heads of functional communities, ADM (Human Resources - Military), and ADM (Public Affairs) to build on existing programs and enhance the Department's and the Forces' presence in the labour market via recruit advertising and its outreach networks, targeting universities and colleges in particular;***

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[31] As per footnote 29, this plan would be developed by the Assistant Deputy Minister (Human Resources - Civilian), and would be: approved by the DM and CDS; attached as an addendum to the Level Zero Strategic Plan, and used by all Level One managers and below to the Director/Colonel level as direction and guidance in the management of civilian employees and civilian HR activities within their organizations.

- ***strengthening the image of Defence as an employer of choice within the Public Service by strengthening HR management practices and inter-departmental exchanges; and***
- ***implementing information management and information technology solutions that support progressive recruiting, including the future use of e-recruiting.***

Bill C-25 and Human Resource Modernization

As noted above, the federal government is taking action to modernize its human resource management framework. Indeed, under proposed reforms, the human resource management legislation for the federal Public Service is being modernized for the first time in a generation under Bill C-25. This Bill has passed second reading in the House of Commons and is now before the Senate.

If and when passed, Bill C-25 will create a new institutional and legislative framework for managing HR within the federal Public Service. Key changes include:

- a new definition of merit;
- greater delegation to Deputy Heads, coupled with greater accountability;
- new institutions, including a new Labour Relations Board; and
- mandatory union-management consultation committees across all federal departments and agencies.[32]

The Committee believes that Bill C-25 and current efforts in human resource modernization represent a major opportunity for Defence. As one of the largest institutions in Canada and the third largest government department at the federal level, Defence has both a strategic interest and a responsibility to taxpayers to capitalize on the proposed reforms to optimize its human resource management framework and machinery.

DND is already taking steps to position itself to deal with the implementation of these changes. The ADM (HR-Civ) has appointed an official at the level of Director General to lead the implementation of the HR modernization legislation in Defence. Among the key challenges will be:

- educating management, the HR community, employees and unions on the intent and powers under the new legislation;
- the delineation of an new accountability framework, including the articulation of the delegation of authorities and the associated accountability and responsibility;
- the development of a new staffing model; and
- renewal of the HR Civilian management and service delivery model to help overcome significant HR management capacity issues among both line managers and HR Civilian staff.

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[32] The Committee noted that National Defence already has a Union-Management Consultation Committee (UMCC), which has been in place for several years.

Recommendation 32. Move Quickly to Adopt and Apply Bill C-25

If and when approved, Defence should move quickly to adopt and apply the changes contained in Bill C-25. It should exploit the flexibilities and opportunities that will accompany HR modernization in order to support efforts to fundamentally re-engineer civilian human resource management across the Department and the Canadian Forces. The recent creation of an office to implement Bill C-25 and human resource modernization within National Defence, and the appointment of a Director General-level executive to lead implementation, is strongly endorsed.

a. ***Defence should, as part of these efforts, pursue a program to reform and renew the ADM (Human Resources – Civilian) Group that acknowledges the requirement for a competent and professional in-sourced human resource function in keeping with the objectives of Bill C-25 and broader federal efforts to modernize human resource management. To this end, the Department should:***

- ***develop an improved management and accountability framework for the management of civilian human resources in Defence, consistent with Bill C-25 and federal human resource modernization efforts;***
- ***articulate the authorities, accountabilities and responsibilities for civilian human resource management for civilian and military managers, employees and the human resources community, at all levels, in Defence Administrative Orders and Directives, and, as part of this accountability framework, include any revisions that may be required to update the role and mandate of the National Defence Union-Management Consultation Committee[33];***
- ***build on work already underway to increase the delegation of authorities within this revised framework, so that managers hold increased delegation, and 'control' is exercised through improved monitoring, reporting and post-transaction audit; and***
- ***focus the Human Resources – Civilian Group on core functions, including policy and planning, client services and corporate programs, labour-management relations, and monitoring, audit, evaluation, and reporting.***

b. ***The Committee further recommends that a strong central role for the ADM (Human Resources – Civilian) be articulated and communicated within the Department and the Canadian Forces. While the Committee believes that certain aspects of HR Service Delivery could be decentralized, the Committee concluded that a strong central approach will be required to spearhead a comprehensive re-engineering effort, particularly during the initial three to five year period. To this end, and at***

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[33] If passed, Bill C-25 will create a new legislative and institutional framework that encourages maximum delegation of authority to managers, coupled with appropriate controls. As part of this, authorities should be "tiered" based on existing managerial accountabilities in other areas such as finance, (i.e., Level 4 managers have the authority to …; Level 3 managers have the authority to …; Level 2 managers have the authority to …). Specifics will need to be developed by appropriate functional specialists. The Human Resource Modernization Implementation Secretariat, Treasury Board Secretariat and UMCC will also likely have a significant stake in any articulation of a new accountability framework.

a minimum, the core accountabilities of the ADM (Human Resources – Civilian) should be to:

- ***provide corporate oversight of the health of DND's civilian workforce;***
- ***oversee the design and functioning of the restructured services delivery network;***
- ***set standards for service delivery;***
- ***prescribe human resource reporting requirements;***
- ***conduct post-facto compliance audits;***
- ***oversee the professional development and training of the human resource community; and***
- ***sign-off on senior civilian HR Managers' Performance Evaluations down to the Director/Colonel level, in instances where these managers do not have a direct reporting relationship within the Human Resources – Civilian Group.***

The Staffing Process

As noted earlier in the Report, the Committee was repeatedly told by senior leaders, managers and staff that a key area to be addressed in the review was the civilian staffing process. The view, contained in several of the e-mail suggestions received and clearly expressed among the senior military and civilian members consulted, is that the current staffing process is overly complex, takes too much time to recruit and hire staff, and, as a result, creates undesirable inefficiencies.

Departmental statistics support this view. The hiring process can involve many steps including organizational design, classification of the actual position to be filled, staffing, testing for language skills or aptitudes, obtaining the necessary security clearance, and addressing any appeals to the actual staffing action that may be received. For the most part, all of these processes and sub-processes are paper-driven, form-intensive, linear and cumbersome, and result in poor institutional performance in this area.

As of March 31, 2003, the average *staffing* time to fill civilian positions in National Defence was 104 working days for an open competition and 219 working days for a closed competition. In addition to these times, the following activities, if they have to be completed, make the process even longer:

- classifying an identical/existing position – more than five working days;
- classifying a new organization – up to 135 working days;
- assessing priority referrals – anywhere from five to 15 working days;
- language testing/diagnostic assessment – up to 20 working days; and
- obtaining a security clearance – two months to one year or longer, depending of the level of clearance required.

In addition to the above, appeal periods must, by legislation, last 10 working days. If there is an appeal, then the appeals process takes over and consumes considerably more time. The cumulative result of these activities, as presently carried out, can require over one year to hire an indeterminate civilian employee.

The ADM (HR-Civ) is already working to re-engineer and streamline staffing, with new targets as follows; 89 working days for basic open competitions, and 149 working days for basic closed competitions. These targets do not include time for other elements of the hiring process such as classification, language testing/diagnostic assessment, and security clearances. It is important to recognize, much of the time spent on the staffing process is taken up by managers who are required to perform specific tasks as part of the overall procedure and much of the delay is encountered in the completion of these tasks by the managers themselves.

That said, DND employs a large civilian workforce and it is important that the administrative processes that support the HR function are well designed and performed effectively. While the Committee recognizes that the current situation is generally similar to that across the federal Public Service as a whole, the need for change is important given the demographic profile and unique mix of skills that are employed throughout Defence. The arrival of Bill C-25 and the new HR modernization initiative are timely for Defence and it is important that their implementation be accorded strong support.

While difficult to quantify in terms of dollars, the Committee also heard anecdotal evidence that suggests that military and civilian managers are tending to 'work around' time delays in the normal staffing processes by turning to the use of casual and term employees either as an alternative to or, to allow time for, the formal staffing procedures to run their course. Statistics maintained on staffing appear to support this finding. The statistics show that more than 50 percent of staffing actions involve the hiring of casual and term employees, and only five percent to 10 percent of staffing actions involve hiring full-time indeterminate staff. This is troubling in that the demand on the staffing system, in the end, turns out to be quite high as multiple staffing actions are being used to actually fill one position. Consider this against the backdrop of an organization that has a 4.1 percent annual turnover rate in civilian employees, and the problem quickly multiplies. This, in turn, exacerbates the stresses on the current staffing system as a whole and places undue stress on HR services throughout, because they 'can't keep up'. As well, based on anecdotal evidence, it was learned that many middle-level managers have not been very well prepared to assume their duties and responsibilities in civilian human resource management, which further exacerbates the stresses on the system and the staff.

In short, the Committee believes that the current hiring process is excessively cumbersome and time-consuming, and in need of a major change if Defence is to be competitive in attracting and retaining a quality workforce in the numbers it will require in the future. It is also, in the Committee's view, undermining broader efficiencies within the Department and the Forces, and contributing to inefficient hiring and contracting practices by individual managers. If Defence is to reach higher levels of administrative efficiency, civilian staffing processes must be further streamlined and re-engineered.

Recommendation 33. Re-Engineer Civilian HR Processes

The Department should move much more aggressively to re-engineer and automate its organization, classification, and staffing processes.

As part of these efforts, the Department should:

a. make greater use of standardized work descriptions, delegation of authorities, e-tools, and automated work flows to streamline and simplify the forms, paper-work and information management requirements of the hiring process, from end-to-end;

b. work with functional communities and HR Client Service Officers to build on existing initiatives (such as Quick-Serve) and efforts to populate an e-database of classified work descriptions;

c. maximize the delegation of authority to managers to create positions and to initiate staffing;

d. rationalize classification and staffing forms into a single, integrated e-form, and automate the classification/staffing process from the desktop to the creation and posting of job posters;

e. use e-screening tools to facilitate the more rapid processing of applications;

f. use new technology applications to maintain records of university and professional qualifications for individual employees;

g. explore the use of better risk management practices to help reduce candidate clearance times[34];

h. remove disincentives to managers wishing to staff positions with indeterminate employees (as opposed to casuals/terms), including maximizing the stability and clarity of managers' multi-year operating budgets, so as to give greater certainty to these budgets for civilian salary and other personnel costs;

i. set aggressive benchmarks for performance management of end-to-end hiring processes (i.e., classification, staffing, language testing, security clearances); and

j. increase the ratio of HR Client Service Officers ('generalists') to employees to improve service capacity[35].

Recommendation 34. Implement a New Service Model

The Committee recommends moving as quickly as possible toward a service model where managers and employees can access human resource services on-line, through a National Call Centre, or through their local human resources advisor, as

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[34] While more work is required in this area, the Committee believes that the Department, in collaboration with the Treasury Board Secretariat and other appropriate agencies, should consider options to accelerate the completion of language diagnostic testing, where required; and,greater use of e-processes to reduce security clearance times.

[35] Benchmarking data show that the ratio of HR Advisors to population served in DND is 1.5 per 100 employees, which is significantly lower than the federal public service average of 1.9. The Committee strongly recommends that the increase in HR Client Service be funded by decreasing the resources going into lower value-added human resource administration functions (i.e., processing and re-processing paper, double data entry), and by reallocating at least some of those resources into service delivery.

required, depending on the complexity of the need. In implementing this model, managers and employees should be encouraged to maximize the use of self-service e-tools and the proposed Call Centre for more simple transactions, and save face-to-face personal service from human resource advisors for help in resolving more complex, higher value-added challenges.

Electronic Solutions

A key element of the Department's effort to re-engineer human resource management should be the increased use of e-solutions, aimed at improving the overall performance of the civilian HR administration function.

In its review and analysis, the Committee found that the Department is lagging behind other public and private sector organizations in its use of e-solutions. Current processes in human resource management are largely paper-driven (using multiple forms), labour intensive, and poorly integrated. There is double data entry in pay and compensation. Paper pay cards still need to be used in addition to the computerized system, and paper-based forms and processes are still being used for areas such as the management of annual leave and the administration of overtime.

That said, the Department is moving forward to better capitalize on IT applications in several areas. For example, it is moving forward with plans to implement the web-based Version 8 of PeopleSoft for December 2005. As well, it is exploring the use of e-recruiting through a pilot project aimed at enabling the e-screening of applications and the e-transfer of paper applications from the Public Service Commission to DND. Self-serve kiosks are being explored to facilitate on-line applications for jobs and to verify personal data. An electronic leave approval system is also being examined.

It is also clear that the Department is facing challenges in becoming more aggressive in this area. The Department must balance competing demands between military and civilian administrative and operational priorities. It also must take action to better define its e-solution requirements for human resource administration and fund them appropriately. There are broader 'pay interface' issues across Government that must be addressed before double data entry issues can be eliminated, and this should be pursued with PWGSC. As well, the federal Public Service remains in the early days of establishing procedures for e-based recruiting. Every effort should be made by DND to assist in advancing this important issue.

Given these caveats, the Committee remains convinced that much more can and should be done to capitalize on the use of information technology to improve efficiency in the area of civilian HR management.

Recommendation 35. Embrace E-Solutions

The Department should move much more aggressively to implement e-solutions to meet its HR management challenges, particularly in the area of hiring and the elimination and/or reduction of standard, paper-based process.

As part of these efforts, the Department should:

- *a.* ***consolidate and automate forms, work flows, and processes in areas such as hiring, leave, overtime, and pay and compensation;***
- *b.* ***maximize the availability and accessibility of on-line human resource information and services, with emphasis on maximizing self-service tools;***
- *c.* ***continue to install kiosks to serve areas with limited access to the National Defence Intranet and/or personal computers;***
- *d.* ***move forward more aggressively into e-recruiting and the e-screening of job applicants;***
- *e.* ***automate systems for processes and decision support; and***
- *f.* ***consider a Web-enabled 'National Call Centre' to support delivery of advice and information on corporate HR programs to managers, employees and the broader human resources community[36].***

Overlap and Duplication in the Management Framework

Much of the Committee's analysis focused on the governance and management of civilian human resources across the institution as a whole. The current governance and accountability structure was approved by the Defence Management Committee in the fall of 2001. The current framework is based on what is called a 'mixed' model, in that it contains both centralized and decentralized elements. The model includes Level One and Level Two human resource business managers (HRBMs) and their respective staffs, who report to, advise and support Level One Commands and Group Principals. There are approximately 150 personnel employed in this decentralized network.

At the same time, the ADM (HR-Civ) provides functional direction on civilian human resource management issues. In addition, there is a Level-Three HRBM network, which is physically distributed across the organization down to the Base level, in order to provide direct client support to managers and Canadian Forces leaders. These Level Three-HRBMs serve and advise senior civilian and military managers, but report to the ADM (HR Civ) through a Regional Service Centre network. The Service Centre network, in turn, provides a coordinating role between the 'decentralized' and 'centralized' elements of the model. There are approximately 570 personnel in this network, which includes Headquarters, Regional Service Centres and the Level Three HRBMs.

On the basis of its analysis, the Committee believes that the current model is overly complex and resource-intensive. While the current approach endeavours to balance the need for professional standards with the need to be responsive to clients, it also creates unnecessary overlap and duplication. As a result, there can be two levels of advice provided to senior civilian and military managers, as well as two steps in the various processes, including staffing, where an integrated approach would eliminate overlap and duplication and be both more effective and efficient.

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[36] The proposed National Call Centre, which will need to be further assessed and costed, would represent a 'second' tier of service between 'self-service' (enabled over the Defence Intranet and kiosks) and 'full service' (enabled through the rationalized, but strengthened Client Service network).

Recommendation 36. Rationalize and Consolidate HR Service Delivery Networks

Defence should rationalize and consolidate its advisory and service delivery network and:

- ***a.*** ***transform the civilian HR community based on a stronger advisory, service-oriented culture that supports increased delegation of authority to managers and increased professional development among employees;***
- ***b.*** ***restructure the corporate human resource service delivery network to deliver human resource services to Level Ones through 'generalist' Client Service Account Officers;***
- ***c.*** ***build the 'generalist' Client Service Account Officers through the consolidation, rationalization and integration of the existing HR Business Manager and Human Resource Service Centre Networks; and***
- ***d.*** ***through this process, strengthen the capacity of the 'generalist' Client Service Account Officer system as part of the new management framework for civilian HR management.***

Organizational Arrangements for the Delivery of Civilian HR Services

Against this backdrop, a key implementation issue will be ownership of the integrated Client Service Account System that is being proposed. In a sense, 'ownership' of the human resource Client Services is both the issue and a 'red herring'. The proposed Client Service Account Officers could be 'owned' by either the ADM(HR-Civ) in a centralized model, or Group Principals and the Environmental Chiefs of Staff in a decentralized model. Both options would likely be more efficient than the status quo, as both are premised on rationalizing the existing 'dual' service network.

In general, the centralized model is likely to be more efficient and less costly, as it facilitates:

- economies of scale;
- continuity in functional guidance and service delivery given the rotational nature of the military staff system;
- the ability to more effectively respond to changing priorities and work volumes;
- pooled use of resources and capacity to support surge requirements and smaller Groups and organizations;
- the establishment and enforcement of common standards;
- the consistent execution of corporate programs (due to direct command and control); and
- results in more consistent, coherent and cohesive HR management services for civilian employees throughout Defence.

The decentralized model, in contrast, is more reflective of Defence's decentralized management philosophy and therefore may be viewed by many front-line managers as being more responsive to their needs as a result of a direct reporting relationship.

It is the view of the Committee that it is vital for service delivery to be better integrated and that either model (centralized or decentralized) would work. That said, the Committee recommends the centralized approach for at least the next three-to-five years. Given the size and scope of the proposed recommendations, it is believed that a stronger, centralized approach will be needed to spearhead change and implementation and facilitate management of the re-engineering program in an integrated manner.

Joint Administration of Functions and Activities Common to Military and Civilian Human Resource Management

Until 1998, human resources within DND were managed by a single organization. However, given the growing importance of human resource management to the future success of such a large organization, two Groups were established in 1998, one responsible for military human resources, the other for civilians. Over the past few years, the two Groups, while separate organizationally, have continued to work together through joint management in areas such as the Defence Learning Network, PeopleSoft, conflict management, harassment policy, and employment equity.

From an efficiency perspective, a single, integrated organization responsible for all human resources management is likely to be more efficient, but would be extremely difficult to implement culturally. Short of re-integrating the two organizations, however, the Committee believes that there are opportunities for greater efficiencies through the joint management and administration of common functions and activities in areas such as comptrollership, business planning, IM and IT, research and analysis, diversity, employment equity, and professional development.

Recommendation 37. Re-establish Joint Management of HR in Selected Areas

The Department should consolidate and establish joint management and administration among the two Human Resource Management Groups in areas where the ADM (Human Resources - Civilian) and the ADM (Human Resources - Military) could share common services, functions and related programs. Further, the managers of the proposed shared/common units should have dual reporting, and report to both ADM (Human Resources – Military) and ADM (Human Resources - Civilian).

a. The shared services and functions that should be considered include:
  - ***human resource research and analysis;***
  - ***internal surveys;***
  - ***business planning;***
  - ***comptrollership and financial administration;***
  - ***information management and information technology; and***
  - ***departmental corporate reporting.***

b. The common program areas that should be considered for continued and/or expanded collaboration include:
  - ***the Defence Learning Network;***
  - ***learning and professional development, particularly in the area of management development;***

- ***employment equity and diversity;***
- ***workplace well-being;***
- ***official languages; and***
- ***member/employee queries and the management of the proposed National Call Centre.***

Implementation

In formulating its recommendations, it became clear to the Committee that capacity building will be critical to implementation. Part of the current civilian human resource management challenge is a lack of capacity among both human resource practitioners and managers.

Put simply, the human resource management challenge should not be characterized as a 'problem' with the human resource community. Many of the human resource management issues identified by the Committee are complex, and institutional or Public Service-wide in scope. This is reflected in concerns over service quality, bottlenecks and slow processing, as well as over-use of terms and casuals, which, as noted above, increases overall demand and stress on the system as a whole.

In many ways, the issue is not the level of resources, but the distribution and allocation of those resources, coupled with a poor understanding of accountabilities, responsibilities, authorities, roles, processes, tools and service options.

Given this, the successful implementation of the Committee's recommendations on civilian HR management will require a dedicated effort to build capacity through increased training and professional development. In building capacity, emphasis will need to be placed on:

- strengthening training systems to support senior civilian and military managers to better understand and exercise increased human resources management authorities and accountabilities;
- building a stronger generalist, advisory capacity across the human resources community; and
- valuing HR data and data quality, as well as performance measurement.

Implementing the proposed recommendations will also generate significant transformation issues. These recommendations go further and faster in many areas than current initiatives underway within the Department. As a result, it is anticipated that the proposed human resource management framework and its implementation will be closely scrutinized by the human resource community, unions, and central agencies.
Within this context, it will be critical to:

- proactively communicate the vision of HR modernization in Defence and how it will contribute to a stronger institution and a more dynamic and relevant HR community;
- manage communications and change during implementation both vertically within the Civilian Human Resources Group, and horizontally across DND,

the CF, and the human resources community in other government departments;

- manage expectations and the fact that transformation based along the lines put forward will be, and must be, a multi-year process that will take up to three to five years to fully implement; and
- manage the transition to the proposed new human resource management regime through a mix of investment in new capacity, re-investment in existing capacity, and natural attrition.

Recommendation 38. Strengthen HR Training

The Department should adopt an aggressive, proactive approach to support implementation of the proposed new human resource management regime through enhanced HR training – supported by change management and internal communications – in order to build civilian HR management capacity across the institution. Implementation of this initiative should include efforts to maximize efficiency in the delivery of training.

To this end, the Department should:

a. increase the training and development of human resource 'generalist' advisors, and specifically strengthen the institution's advisory capacity in certain areas, including classification, change management, and organizational development;

b. make training on civilian human resource management mandatory for supervisors and front-line managers on appointment to a supervisory-level position;

c. increase the use of training resources available to the Public Service outside of DND (e.g., through the new Canada School of Public Service envisaged by Bill C-25), particularly in the area of management development;

d. embed the required civilian human resource training into departmental and Canadian Forces training programs and systems;

e. make the Assistant Deputy Minister (Human Resources - Civilian) accountable and responsible for setting standards and overseeing the content of training programs;

f. establish a standard for software development for e-learning;

g. encourage the institution as a whole to migrate as quickly as possible to the Defence Learning Network (once proven) as the core DND and CF learning platform;

h. maximize collaboration between the military and civilian Human Resources Groups on learning and professional development, particularly in the area of management development; and

i. develop a comprehensive and proactive communications and change management plan to manage the transition to the new human resource management framework.

Areas for Further Study

While the Committee believes that it has put forward a comprehensive and far-reaching set of recommendations to re-engineer civilian human resource management, there are several areas where it believes that further action may be required and/or possible.

To facilitate implementation, the Committee recommends that more work and analysis be done to:

- identify emerging best practices in both the private and public sectors;
- specifically identify existing e-systems, like annual and sick leave management, that can be imported into Defence with relative ease; and
- consider functional community management from a Public Service-wide perspective[37].

Concluding Remarks

The Committee believes that the Department has a major opportunity to capitalize on Bill C-25 and HR modernization more broadly to re-engineer its HR management regime.

It is vital to the future success of both DND and the CF to build a more flexible, responsive, and adaptive institution. The comprehensive re-engineering of the HR management function must be an integral part of the institution's broader transformation agenda.

As part of this effort, it is vital for DND to move from a 'gatekeeper' or 'control' oriented civilian HR management philosophy to one that:

- empowers managers and functional communities, while putting in place mechanisms to ensure accountability;
- delivers expert human resource advice and support to managers and employees, as required, and in a timely manner;
- supports managers and HR advisors with on-line tools and e-processes;
- encourages prudent risk management practices to reduce process time and improve efficiency;
- trusts and expects managers to comply with and to oversee sound HR management practices;
- verifies compliance through appropriate audit; and
- ensures that corporate HR policy and program requirements are achieved through a strong, corporate HR organization and capacity.

The Committee also believes that, in moving forward in civilian HR management, it is vital that Defence continue to:

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[37] The United Kingdom, for example, has already created a Government Information Service which recruits and manages the UK Government's Communications cadre, thereby 'virtually eliminating' the hiring work done by individual managers and departments, while reducing costs, staffing times, and improving professional development.

- make DND an employer of choice for both military and civilian personnel;
- engender a professional, competent, motivated, non-partisan and representative civilian work force across the institution;
- encourage best practices in the recruitment, training and retention of employees;
- empower and support managers and employees in the fulfillment of their civilian HR management duties, responsibilities and obligations, while nurturing professional development and the achievement of organizational goals and priorities; and
- ensure fairness, equity, and transparency in classification, staffing, and the completion of performance evaluations.

While implementation of the proposed recommendations will generate some front-end investments (particularly with respect to training, moving human resource processes and services on-line, and the establishment of a National Call Centre), the Committee estimates that there is approximately $2 million in short-to-medium term annual savings that can be achieved, and up to $6 - $8 million in potential longer term savings. The Committee strongly believes that the majority of these savings need to be reallocated within the civilian HR management program to strengthen the HR advisory capacity across the institution.

These savings would be realized by:

- rationalizing the current dual service chains and Human Resource Business Manager and Service Centre Networks;
- streamlining processes;
- eliminating dual data entry and reducing the resources going into pay and compensation administration; and
- reducing the costs associated with shared services and shared delivery of common programs by ADM (HR-Civ) and ADM (HR-Mil).

Over the long term, it is believed that implementation of the Committee's recommendations will reduce costs in lower value-added areas such as routine administrative processes and free up resources for higher priority areas within civilian HR management and elsewhere in the Defence program to support the operations of the Department and the Canadian Forces.

Section 2: Administrative Savings

Although the Committee came to the early conclusion that there were no 'easy' areas where immediate action could be taken to generate savings for reallocation, it looked for, and found, a number of areas that offered the potential for cost savings or efficiencies over the short term. Some of these issues relate to the Committee's study of military human resource management, in addition to the issues of governance, procurement, information management and information technology, and civilian human resources management discussed in Section 1. In many instances, there is already commendable work underway within the Department and the CF to improve efficiency; however, in other areas, the Committee noted that more could be done.

The specific areas addressed in this section include:

- professional services contracts;
- military health services;
- independent oversight bodies;
- travel; and
- military pay services.

Professional Services Contracts

A review conducted by DND's Chief of Review Services (CRS) in 2001, identified that Defence spent approximately $1.3 billion in professional service contracts in fiscal year 1999-2000. To arrive at the sample for the review, CRS excluded certain non-professional types of services such as cleaning and kitchen services and payments to other government departments (OGDs). After 'scoping out' these expenditures, the review examined roughly $800 million in expenditures against professional services.

Using the same methodology, the Committee found that DND's expenditures on professional services contracts had increased to approximately $1.6 billion in 2002-2003, of which $1.2 billion involves those areas examined by CRS. While much of this 50 percent increase can be attributed to major contracts for engineering and support for weapons systems, and while the upward trend identified by the Chief of Review Services in 2001 appears to have slowed, the trend does remain. There are currently more than 8,000 contractors employed in DND and, while the Committee noted that Defence has initiated action on a number of the recommendations made by CRS in 2001 (principally by improving the availability of information and guidelines on contracting), several of the areas of concern have not been fully addressed.

For instance, there are numerous examples of contractors who have been performing the same function for several years; in one exceptional example, the same contractor had been employed for nine years. As well, the vast majority of contractors work on-site using DND office space, equipment and supplies, elements that can contribute to the development of an employer-employee relationship. One reason given for the high number of contractors filling ongoing requirements is that the MCCRT study of the mid-1990's did not complete the re-engineering of certain processes and, although the numbers of military and Public Service staff were reduced, the workload remained essentially the same. In other cases, short-term requirements initially filled by contractors evolved into longer-term continuing workloads.

As the Committee has noted, Departmental senior managers do not have sufficient visibility on information needed to manage the organization efficiently. Indeed, as CRS indicated in his 2001 Report, the lack of visibility at corporate levels on expenditures for contracted professional services was due, in part, to the lack of available and sufficiently detailed data. The Committee found that there has been improvement in this respect, however, many difficulties remain.

In several cases, there is also a lack of performance reporting. While the largest contractors are delivering Alternate Service Delivery - type services and performing entire functions, there remain many contracts for professional services that lack clearly specified deliverables. Reflecting these services in business plans, and reporting results annually, could provide senior management with better visibility as to the costs of these services.

Contractors are also often overlooked when assessing growth in the workforce and in the size of headquarters. Further, contractors are also generally more expensive than public servants or military personnel.[38] As noted elsewhere in the Report, there is significant potential for savings by replacing this contracted 'hidden' workforce with public servants. The Committee found a number of cases where steps are being taken to control these workforce costs. For example, the Assistant Deputy Minister (Materiel), has identified potential annual savings of $8.8 million by replacing 300 of the 650 contractors employed in support of the National Procurement function. Potential savings vary by position, but the Committee estimates that average per-position financial savings of 20-25 percent can be achieved. Other Groups within NDHQ identified more potential opportunities to replace contractors with public servants and, in some cases, the estimated savings are significantly higher. One extreme example indicates that a contractor being paid $250,000 per year, could be replaced with a public servant or a military member at roughly $60,000 to $70,000 per year.

One large contract that offers potential savings is in the area of health services. The wide range of functions contracted, the geographical factors and wide salary ranges make it difficult to estimate the potential savings with precision. The Director General Health Services (DGHS) indicated that public servants could do a number of contracted functions. Physicians, who are employed on a contract basis, would be excluded, because the Department is unable to hire them at a lower cost, due to competition for doctors' services.

In summary, and based on the data provided by the Department, it is the Committee's estimate that DND can save $14 million to $16 million annually by replacing elements of the 'hidden' contract workforce with public servants. This assessment is based on the limited data that was available and conservatively includes less than 25 percent of the contractors currently employed by Defence. The Committee believes that potential savings could, in fact, be much higher. At the same time, it is important to recognize that some of these contracted functions are less expensive than using public servants and that, in many areas, Defence is making efficient use of services contracting.

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[38] Based on the total direct salary costs and statutory costs such as pension and EI, provincial health contributions, but not including indirect salary costs such as overtime and severance pay for civilian employees. Contractor costs based on contracts. Accommodation costs not included because the majority of contractors use DND workspace.

In order to derive savings by hiring public servants, it will be necessary to dramatically improve the current staffing system. The cumbersome and lengthy staffing process, combined with high staff turnover rates in some occupations, makes the use of contractors more responsive to needs. Further, in some cases, managers may feel that increased productivity offsets the additional 20-25 percent average cost of contractors. Implementing the Committee's recommendations in this area should help to improve this situation, but ultimately the use of professional services contracts is a management decision. Managers must be able to assess the efficiency of all of the options available, including staffing, before contracting for services.

Another specific area of contracting that may be affected directly by the staffing process is temporary help services. Contracting in this category has increased by more than 100 percent in the past three years and is now at $35 million annually. While temporary help services are useful for short-term requirements and, in many cases, are cost effective, the Committee received anecdotal evidence to suggest that there are circumstances when these services are used to circumvent the staffing process. Information provided to the Committee indicates that some areas also regularly use temporary help services as leave replacements. This use of contractors is clearly inefficient when the capacity exists in the shared support services function of NDHQ to provide some of this temporary help.

The greatest potential for savings in the area of professional service contracts, however, is through the elimination of the requirements that call for the use of contractors. The Committee observed that, in a number of areas, Defence has developed a significant dependency on contractors. In some instances, earlier closure of projects and more efficient transfer of knowledge from contractors to staff would reduce annual expenditures. Contractors are sometimes retained for short periods of time to troubleshoot problems and/or to oversee the transfer to staff. The tendency is then for work to expand to take advantage of the available contract expertise. In some cases, contractors are being used for what appear to be very routine tasks, such as writing speaking notes; in other cases, contractors are performing work on 'core' functions.

The use of what CRS referred to as 'professional brokers' has declined slightly since 2001, but is still very common. These companies generally provide little or no corporate expertise and charge a premium, essentially only to provide qualified personnel. In many cases, the companies are used to get around impediments to hiring retired military or civilian personnel and to maintain at least the appearance of an arm's length arrangement, by serving as a third party. Defence may benefit from added flexibility with regard to military retirement ages, as part of work underway in the CF to modernize the terms of service of military personnel by capitalizing on opportunities to retain military expertise longer. If the Government of Canada were to relax current restrictions on military personnel competing for closed competitions for jobs in the Public Service, it would allow Defence to hire military retirees directly. The Committee noted that the United States military is actively pursuing the elimination of similar restrictions in its personnel systems, so as to capitalize on the expertise and experience, which literally 'goes out the door' when these individuals retire.

The Committee understands that, at present, there is no internal management consulting capability within Defence. Such an in-house capability existed in the 1990s, but was eliminated as a cost-saving measure. Since that time, the average education level in the Defence workforce has increased considerably and a broad range of skills and knowledge exist across the institution. The Committee noted that pockets of expertise are developing in the Department, such as the organizational design section of the Director General Learning and Professional Development division of the Civilian Human Resources Group.

A strong case could be made for DND to re-establish an internal management consulting service that could be called upon to complete many of the short-term projects presently done by contractors. This section could be established as an agency on a fee - for-service basis and with access to retired personnel. Such an organization could also make use of military personnel whose postgraduate studies were sponsored by the Department and could provide summer employment for students between academic years in post-graduate programs. This arrangement could be beneficial to Defence and would be much less expensive than contractors. Further analysis of the potential benefits of an internal management consulting capability should be undertaken, as it would appear that the Department could internally provide much of the same service now being provided by the aforementioned 'professional brokers'.

In summary, the Committee consistently heard that extensive savings were possible in the area of contracted professional services. The Committee's review of this area confirms that this, in fact, is the case. Creating new indeterminate positions for public servants to replace contractors offers potential for savings in excess of $15 million annually. But this is only a very small percentage of the $1.6 billion the Department is spending in this area. Improvements in the staffing process, better use of shared services, innovative internal approaches, better transfer of knowledge upon the closure of capital projects and other recommended initiatives will yield even greater savings. The Committee estimates that Defence can achieve savings of $30 million - $45 million in the area of professional service contracts.

Recommendation 39. Contracted Professional Services

The Department of National Defence and the Canadian Forces are clearly making inefficient use of professional service contracts in a number of areas. Some improvements are underway but the Committee believes that more can be done and that significant savings can be found.

The Committee recommends that:

a. a fundamental review of contracting practices should be undertaken as a priority and a business case methodology should be applied to all

contracted professional services;

b. ***every capital project should have a plan to transfer knowledge from contractors as early as possible;***

c. ***the civilian staffing process must be improved to facilitate hiring of public servants in a timely manner and eliminate the need to fill positions with more expensive contractors; (See Section 1)***

d. ***the feasibility and cost effectiveness of re-establishing an internal management consulting service within the Department of National Defence should be examined to complete many of the short-term projects presently being done by contractors;***

e. ***legislative restrictions that exclude military personnel from competing in closed competitions within the Public Service should be amended to make current military members or retirees eligible to compete in closed Public Service competitions;***

f. ***senior managers should be provided with improved visibility on the use and cost of professional services contracts and an appropriate transparency level should be included in Business Plans, including the extent to which contractors will be used and the associated rationale;***

g. ***periodic resource management reports should include visibility as to the number and value of professional services contracts;***

h. ***the Department must insist upon clearly defined deliverables for professional services and ensure that value for money is being received against contracted services;***

i. ***within NDHQ, better use should be made of shared support services for temporary help requirements; and***

j. ***priority should be given to replacing contractors with public servants where practical and cost-effective and, in particular, where there is a developing risk of an employer-employee relationship.***

Military Health Services

The Canadian Forces Health Services (CFHS) is the designated health care provider for Canada's military personnel, delivering medical and dental services at military installations across Canada and overseas. In delivering military health care, there are two distinct but related requirements. The Department of National Defence is legally bound to provide health care services to all military personnel.[39] The second requirement is the maintenance of sufficient capability within the force structure to provide medical services to deployed military operations. The CF force structure maintains this capability which is also available to provide routine health care services when personnel are not deployed. The cost of CF health services in fiscal year 2003-2004 will be in excess of $650 million and the annual operating cost is in the order of $435 million, excluding the cost of infrastructure maintenance and other indirect support costs.

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[39] The *Canada Health Act* specifically excludes Canadian Forces military personnel, as it does certain other groups of federal employees.

In the early 1990s, the Department took a decision to reduce the services provided in–house by military health care professionals in order to reduce costs. Health care is now provided in a number of ways:

- military health care professionals provide medical and dental services in Base-level clinics;
- DND partners with civilian health care providers;
- a national contract with Blue Cross provides for after-hours and contracted services; and
- specifically contracted professional services augment the Base-level military capacity.

The Assistant Deputy Minister (Human Resources-Military) has launched a major reform project, Rx 2000, to develop and implement solutions to address known deficiencies in the CF health care system. The objective of the project is to improve the standard of health care provided to CF members, both at home and abroad.

The Department of National Defence pays an employer health tax as a payroll tax in four provinces. Contribution rates range from 1.95 percent to 4.2 percent of its payroll; total contributions are in the range of $50 million[40] annually. However, as a result of exclusion from the *Canada Health Act*, military members are not entitled to free access to basic provincial services. Defence is therefore paying a payroll tax to certain provinces for services from which CF members are specifically excluded under the Act. Elimination of the payroll tax would likely be very difficult, requiring either amendment to the *Canada Health Act* or provincial regulations or both. Further, eliminating this payroll tax for Defence would not immediately free funds for reallocation within the Department, as savings would accrue to the Government of Canada. The Committee notes that similar payments are made on behalf of other federal employees excluded under the *Canada Health Act*.

In addition, because military members are excluded under the *Canada Health Act*, DND is billed at an out of province, or foreign, rate that varies by province and which can be as high as 200 percent of the normal billing rate. The use of civilian health care facilities has increased as a result of reductions in the availability of military facilities; payments to the civilian sector for health services are now in the order of $55 million per year. Annual costs are also increasing at a greater rate than the inflation provision that the Department receives from the Treasury Board on its annual allocations. In fiscal year 2002-2003, invoices from Blue Cross for health services totalled $64.2 million, which also included administration and record-keeping functions. The transfer of information also generates additional costs, however a new information system is expected to reduce this somewhat. The Committee's overall assessment is that the Blue Cross arrangements appear to be administratively cost effective.

In addition to Blue Cross coverage, DND also contracts professional medical services, mostly through Med-Emerge. The three-year Med-Emerge contract costs

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[40] Ontario is $21.4 million, Manitoba $3.2 million, Newfoundland and Labrador $.5 million, Quebec is $22 million and Reserves are $7 million.

$86.63 million (including salaries for contracted medical providers and contract management fees) and ends in fiscal year 2003-2004. The Rx 2000 project will ultimately reduce DND's dependence on these contracts.

Recommendation 40. Health Services

The Minister may wish to consult with his colleagues, including the President of the Treasury Board, the Minister of Finance and the Minister of Health, to determine whether the issue of the Employer Health Tax should be pursued with the four provincial governments. The Committee recognizes that the elimination of the payroll tax applied by certain provinces will not result in direct savings to the Department. This issue is, arguably, beyond the Committee's specific mandate, but the Committee has noted the inconsistency between the requirement to pay this tax and the exclusion of military members under the **Canada Health Act.** ***The employer payroll tax represents an expenditure of federal tax dollars for which the Government of Canada receives no apparent benefit.***

Independent Oversight Bodies

There are a number of oversight organizations which fall within the purview of the Minister of National Defence, each with a varying degree of independence from the DND and the CF. They include:

- the Military Police Complaints Commission;
- the Canadian Forces Ombudsman;
- the Canadian Forces Grievance Board; and
- the Minister's Monitoring Committee on Change.

These bodies operate independently of each other and each has a full range of dedicated support services. With the exception of the Monitoring Committee on Change, their mandates involve dealing with complaints made by CF members.

Within the Defence, there is a formal CF Grievance Authority, a Conflict Management Program and a number of established processes within the chain of command to deal with harassment complaints, human rights complaints, and similar issues. Taken together, the dispute resolution and oversight bodies represent a significant annual expense to the Department, with formal complaint organizations having total budgets in excess of $25 million and employing more than 240 personnel. The total cost of dispute management in DND and the CF was not available. In the CF, most of the responsibility rests with the military chain of command and is exercised within the scope of normal management responsibilities. As an example, harassment complaints in the CF are normally dealt with as a secondary duty by an organized network of advisors with specific training. The Committee estimates the costs of dispute resolution, in terms of time within the chain of command and related staff time, could well equal or exceed that of the formal organizations. The Committee finds this approach of multiple, issue specific organizations to be expensive and with considerable potential for overlap and duplication.

Military Police Complaints Commission (MPCC)

The MPCC serves as an independent civilian agency, providing oversight on complaints related to the conduct of the current 1250 Military Police (MP). The Commission also has sole jurisdiction to investigate complaints of interference in the conduct of MP operations. By all accounts, the Commission performs an essential function and is a value-added activity. The Military Police Complaints Commission has an annual budget of approximately $4.3 million and a staff of 24.5 full-time and part-time personnel. The Commission employs contractors to conduct investigations. In 2002, 104 files were opened and 15 interim and 16 final reports were issued. After almost four full years of operation, it appears that the case volume has reached a steady state. In 2002, the average cost per file was more than $38,000. If the volume of general requests for information and files that are outside the Commission's jurisdiction are removed, the average cost is $56,000. Considering that the CF Deputy Provost Marshall initially investigates all cases referred to the Commission, and that only a small percentage of these require actual investigation by the Complaints Commission, the Committee assesses that these costs are excessively high.

By way of comparison, the Royal Canadian Mounted Police (RCMP) Public Complaints Commission, with a similar mandate for a force of more than 15,000, has a budget of approximately $4.7 million and 31 full-time and part-time employees. In 2001-2002, the RCMP Commission received 1176 complaints. The two have similar mandates and, while a straight comparison of the two organizations ignores some differences between them, they are similar enough to conclude that the MPCC is more expensive.

The Committee understands that the MPCC is currently exploring opportunities for shared support services with the Small Agency Administrative Network – a Treasury Board sponsored pan-departmental, initiative – that may result in some savings. However, even greater savings may be possible if the organization were to be integrated with the RCMP Public Complaints Commission. The Committee expects that this proposal would require a more detailed examination and considerable coordination, and would obviously be subject to agreement by the RCMP. While there may be impediments to such integration, none appear to be intractable. In addition to savings in the support function, there may also be potential benefits to be gained in terms of effectiveness through integration, while acknowledging the differences in the mandates of the two police forces.

Grievances

The Canadian Forces Grievance Authority adjudicates grievances on behalf of the CDS. The Canadian Forces Grievance Board is mandated to complete a full and impartial review of every grievance referred to it by the CDS and to make recommendations to assist him in their redress. These two organizations employ 83 personnel and the current average cost of each grievance resolved at the CDS level is $82,300. The majority of grievances in the CF are resolved at lower levels in the process, and the cost of staffing these grievances is not captured in this average. The average also does not include the staff time of personnel employed in the various functional or policy areas that are engaged or required to staff and help assess grievances.

The Committee received numerous comments from members of the CF, both informally and via the intranet suggestion 'mailbox', regarding the inefficiency of the grievance process. The Committee understands that recent changes have been made to streamline the process, and that additional staff have been added to the CF Grievance Authority to deal with new files and to clear the backlog. At the present time, there is a backlog of more than 700 grievances in the CF - some dating back several years, with the longest being outstanding for 12 years. The Committee finds this to be an unacceptable situation and is encouraged by measures being undertaken to effect improvement. Over a 12-year period, an average of 334 grievances have been referred to the CDS level annually, although the trend appears to be declining and the average over the past six years has dropped by more than 25 percent to 243.

The Committee was told that the Grievance Authority estimates that another two years will be required to reduce the number of outstanding grievances to an acceptable level, after which a review is scheduled. The Committee expects that savings will result from that review. At a steady state of about 250 grievances per year, the average cost per grievance is likely to be in excess of $40,000, excluding the cost of the 20 military personnel working in the Grievance Authority. Given the current state of the redress of grievance dossier, the Committee has identified no immediate efficiencies in this area; however, this is clearly an expensive process that should be monitored.

Conflict Management

The Committee understands that the DND and CF Conflict Management Program and its Alternate Dispute Resolution process are expected to assist in reducing the number of grievances, both military and civilian, by resolving disputes at an early stage. The annual budget for this program, which employs 68 personnel across the country, is $6.7 million.

The Defence Conflict Management Program was recently established. The Committee understands that it is expected to reduce the number of grievances that require resolution at the CDS level. Additionally, the CF grievance process is currently being streamlined; the Committee has been told that two years will have to pass before the effectiveness of these changes can be assessed. Once the aforementioned backlog of grievances is resolved, the Committee estimates there will be roughly 250 grievances per year at steady state. The current Departmental estimate is that there will be a requirement for 83 personnel to deal with this volume.

Canadian Forces Ombudsman

The CF Ombudsman acts as a neutral and objective mediator, investigator and reporter, acting on behalf of the Minister. In 2002-2003, the Ombudsman received 1,646 complaints, of which 336 (20 percent) were related to compensation and benefits issues.

The number of complaints has been increasing by about 10 percent annually, although part of this increase has resulted from increased access by CF personnel to the office of the Ombudsman.

The Ombudsman has little control over his caseload because he must be accessible to all military personnel on virtually any matter. In his 2002 Annual Report, the Ombudsman discussed the involvement of his office in the review of the grievance process as a result of complaints received. In roughly the same time frame, the CF grievance process was being reviewed and amended by the military chain of command. The high number of complaints to the Ombudsman related to compensation and benefits issues is similar to that of the Grievance Board.

Summary

The Committee's assessment is that there is significant overlap and duplication among the various complaints organizations within the Minister's portfolio. With the exception of the Military Police Complaints Commission, the various oversight organizations serve essentially the same clients and perform similar functions, although they have different reporting relationships and are mandated under different authorities. It is clear to the Committee that the independent nature of the various bodies, though necessary to a degree, creates inefficiencies. Cooperation among them has improved, but overlap and duplication remains. The most glaring example is the process by which one oversight body reviews the work of another. Continued improvement in cooperation should be strongly encouraged. In the longer term, effectiveness should be measured by a positive systemic impact on morale in the CF, the reduction in the overall number of complaints, and increased confidence in the senior leadership of the CF to deal with complaints and grievances.

The Committee believes that Defence has not optimized the organization of these various oversight bodies in a coherent way. Opportunities for greater savings in space and staff support exist and could be achieved without jeopardizing the independence of these organizations. The Committee is of the view that a more coherent organizational structure is both desirable, and would reduce costs and increase efficiency. In the short term, results should be monitored and growth controlled.

Potential Savings

The Committee believes the increasing costs of the various oversight and disputes resolution mechanisms offer potential for savings - in the order of \$3-\$5 million annually. The Military Police Complaints Commission offers the greatest potential if some degree of integration with the RCMP Public Complaints Commission is possible, or through a higher degree of shared support services. The other oversight bodies may have potential for savings through shared support services as well, although it may be cost prohibitive to accommodate them all in the same facilities and thereby maximize potential in this area.

Minister's Monitoring Committee On Change (MMCC)

The Minister's Monitoring Committee on Change was first established in the fall of 1997. Following the publication of its Reports in 1998 (interim) and 2000 (final), the Committee was reconstituted and given a mandate to continue monitoring the implementation of Government approved recommendations related to the Reserves, professional development, education and leadership. The Minister also requested the Monitoring Committee to provide specific advice on the process for restructuring the Reserves and, subsequently, to monitor the development of a Land Force Reserve Restructure (LFRR) implementation plan. For fiscal year 2002-2003, the Departmental allocated $877,000 to the Committee's operation.

On June 17, 2003, the Monitoring Committee released its latest report, in which it primarily addressed Land Force Reserve Restructure issues. Somewhat as a secondary item, the MMCC noted the significant progress that had been made with respect to Professional Development, Education and Leadership in the CF. In terms of Land Forces Reserve Restructure, the Monitoring Committee noted progress made to date, and identified concerns in four areas: recruitment, training, excessive bureaucratic paper burden and equipment.

The Advisory Committee on Administrative Efficiency understands that, in April 2003, the Minister announced that Defence would be proceeding with the implementation of the second and final phase of the Land Force Reserve Restructure project. Subsequently, funds were allocated to meet the interim goals established by the Minister. The Committee is also aware that a departmental instruction, identifying both execution responsibilities and performance targets, has been recently issued.

Considering the progress being made in its areas of focus, the Minister's Monitoring Committee on Change appears to have largely fulfilled its mandate. The Committee has noted that the Department has already adopted many of the recommendations made by the Monitoring Committee and, in the case of the Land Force Reserve Restructure, is now moving forward with implementation. In the Committee's view, this would suggest that there is no longer a role for the Monitoring Committee and that the resources involved could be better employed elsewhere within Defence.

Recommendation 41. Independent Oversight Bodies

The Committee recommends that complaints resolution and oversight organizations be rationalized. A certain level of expenditure on complaints resolution and oversight is a necessary requirement in the operation of a large public sector organization such as Defence, however, the current organization of oversight bodies is inherently inefficient.

In particular, the Committee recommends that:

a. consideration be given to an integrated complaints resolution organization (excluding the Ombudsman) to deal with all formal complaints;

b. ***a target reduction of 30-50 percent of current resource levels assigned to the grievance process be set once the current backlog of outstanding grievances is cleared;***

c. ***the integration of the Military Police Complaints Commission with the RCMP Complaints Commission be pursued and current resource levels be reduced by a target of up to 30 percent; and***

d. ***the mandate of the Minister's Monitoring Committee on Change not be renewed and resources that might have been assigned to it in the future be re-allocated to higher priority activities.***

Travel

The five-year trend in locally authorized travel shows a steady increase. From 1998 to 2002, expenditures increased by about 27 percent. Seven of the 21 Level One organizations in NDHQ account for more than 85 percent of all locally authorized travel. These include the three Environmental Commands, the Human Resources - Military Group, the Materiel Group, the Deputy Chief of the Defence Staff Group and the Vice Chief of the Defence Staff Group. The Materiel Group accounts for 86 percent of the international travel. In fiscal year 2001-2002, the DND and CF total expenditures on travel were $219 million. Of this, $166 million was for locally authorized travel, $13 million was international travel, and $12 million was related to the capital acquisition program (Vote 5).

The Committee understands that some of this increase is attributable to increases in transportation costs and improved travel benefits for CF members and departmental employees, and that a portion reflects the cancellation of the service air contract. The Committee noted that locally authorized travel expenditures also include expenses related to travel for personnel to attend Command-sponsored training.

The data available on travel is not generally aggregated by function or purpose. Determining the exact purpose of each trip would require a review of the actual travel claim and the authorization block details. Such an 'audit' would not provide an entirely clear picture of the discretionary levels of travel. The Committee understands that the Chief of Review Services work plan for 2003-2004 includes a review of certain aspects of travel.

The Committee has noted that travel spending is part of the devolved operating budgets allocated to Level One managers, and that these managers can move funds from travel to higher priority requirements. This is also true at lower levels of the Department and the CF, and it provides a degree of discipline in the more discretionary portions of the travel budgets.

The Committee has been told that there are appropriate levels of internal controls on the use of travel. Supervisors in the chain of command authorize all trips and the DM and the CDS monitor travel by senior personnel. Individuals do not authorize their own travel. Claims are reviewed and approved for payment by supervisors and all expenses that exceed the amounts authorized by regulation and Treasury Board guidelines must be specifically authorized at an appropriate level.

Considering the total amount spent annually on travel in the Department and the CF, and notwithstanding the internal controls that are in place, the Committee believes there are efficiencies that could be achieved in this area. DND has made a substantial investment in videoconferencing capability, be it secure or unclassified, which has seen a tremendous expansion over the past three to four years. DND has access to over 120 unclassified and secure videoconferencing systems located throughout the country, plus numerous others internationally. The monthly recurring cost of the videoconferencing capability is $16,300 for 14 dedicated lines that guarantee the ability to conduct multipoint videoconferences; this cost is the same, regardless of the number of videoconferences conducted. Usage rates are increasing and will continue to grow as more units across the CF and staff sections within NDHQ discover its usefulness. The Department's statistics show a 175 percent increase in usage over the past four years, and a 43 percent increase in the past year alone. The Committee believes that the increased use of these facilities can reduce travel requirements, and is encouraged to note that Canada is an active participant in the NATO video-conferencing working group.

As well, Defence has a number of distance learning and electronic or 'e-learning' initiatives underway. The Committee expects that the Department and the CF could reduce travel expenditures by expanding the use of technology to deliver training in a decentralized manner. Many of these initiatives are in the early stages of development, but offer substantial potential for reducing training costs. Industry estimates indicate cost savings in the order of 50 to 75 percent are possible through e-learning, with a significant portion of these savings related to travel.

Finally, the Committee has heard anecdotal evidence that there is some discretionary travel of questionable utility. The Committee assesses that travel, as an area of growing expenditure, if left unchecked, could become a potential problem area. The Committee believes that a budget cut applied across the board would cause Level One managers to reprioritize and would result in a reduction of the more discretionary travel.

Recommendation 42. Travel

The Committee has noted the significant rate of growth in Defence travel expenditures and believes that, in addition to the internal controls currently in place, more could be done to ensure that travel is kept at a reasonable level. The Committee estimates that, through greater use of technology for meetings and training and judicious control of discretionary travel, savings in the order of $24-$28 million are possible.

The Committee recommends that:

a. the Chief of Review Service be directed to include an assessment of the potential to reduce discretionary travel as part of its related work plan;

b. e-learning and distance learning initiatives should be vigorously pursued in order to reduce training related costs, including travel;

c. ***the availability and capabilities for teleconferencing and videoconferencing should be actively promoted as a viable alternative to travel; and***

d. ***a target cost reduction of 15 percent of locally authorized and international travel should be established.***

Military Pay Services

The Committee examined administration of military pay as a potential area for achieving efficiencies since this is an area where technology typically reduces costs over time. Of interest, many large organizations have outsourced this function. The two military pay systems operated by the Department - the Central Computation Pay System (CCPS) for the Regular Force and the Revised Pay System for the Reserves (RPSR) for Reserve Force - are run centrally in Ottawa with offices on-line across the country and in Europe. The pay system for the Regular Force also has a deployable capability and is used in ships. Reservists employed as Cadet Instructors are paid on a number of different local systems; efforts are now underway to pay them using the Reserve Force system.

The Committee appreciates that the CF has some requirements for its pay administration that are not in common with other public sector organizations. The Central Computation Pay System was designed to provide a far greater range of services than most civilian systems, allows accumulation of balances and casual payments, and can be used to process a number of miscellaneous transactions to facilitate military administration and discipline. The system also allows CF members to make voluntary allotments of pay, whereby an individual can request that the system initiate a payment on their behalf. For example, a single soldier deploying on operations can make an allotment to his/her parents, so that they can take care of his/her financial obligations in his or her absence (e.g., car payments etc). As well a member can make an allotment directly to a bank, a financial institution or an insurance company. These banking type services and other functions are primarily intended to support deployed operations, however, they are also widely used in static (Base/Wing) situations.

The Committee understands that the Central Computation Pay System has been studied on several occasions. In 1994, a DND team examined the feasibility of outsourcing this system, which was estimated to cost $55 million annually to run at that time. In 1994, benchmarking against United States, British and Australian military pay systems indicated that DND costs were consistent with other military systems. This internal study also determined that outsourcing was not viable as, given the myriad of unusual business rules and the complexity of the system, no contractor expressed an interest. Non-CF payroll systems generally only issue payments and do not provide the extra features or allow balances to stay in the pay account. In 1998, another review of the pay system was completed and again determined that business rules did not favour outsourcing. The estimated cost of the system at that time was $32 million annually.

The Committee was informed that, for more than 20 years, the Reserve Force pay system was the greatest single source of dissatisfaction for Reserve members of the CF.

The Committee is aware that the Revised Pay System for the Reserves has a rocky history, starting as an off-the-shelf commercial system and eventually being centralized and operated with the Central Computation Pay System. The initial commercial solution experienced so many problems that it came to be viewed in a worse light than the universally condemned Reserve Data System that it replaced. It took more than six years to stabilize and to reach the point where the pay system is no longer a major source of dissatisfaction for Reserve force members.

The latest annual cost estimates, including salaries, for running the two military pay systems are $10 million for the Reserve system, and $21 million for the Regular Force system. The central cost of running the two systems is $12 million, including maintenance contracts. A further estimate of annual overhead, infrastructure, depreciation and human resource management system costs, in accordance with the Alternative Service Delivery costing methodology, is $9.2 million. Overall, salaries of personnel involved in administering the system are the biggest cost and are estimated at $18 million. These costs reflect a considerable improvement over the 1994 estimates of $55 million, and even the $32 million estimate in 1998, given the increase in military salaries over the 1998-2002 period.

During 2001-2002 business planning, the Deputy Minister and the Chief of the Defence Staff directed that a review be undertaken, with the aim of simplifying military pay and establishing a 'Total Force' pay system, for both the Regular and Reserve Forces. The review is also aimed to position the pay system as an outsourcing opportunity. Moving to one Total Force pay system would reduce overall annual costs by more than $5 million.

As noted, the major hurdles to outsourcing are unique and complex rules and regulations, some of which cannot be changed without amendment to the Queen's Regulations and Orders for the CF. Over the years, the pay system has been upgraded and certain 'best practices' such as electronic deposit, have been in place for some time. The departmental cost of mailing military pay statements is in the order of $450 thousand per year. An initiative to provide electronic access could eliminate 60 percent of this requirement and save $240,000 annually, requiring only a $100,000 initial investment.

The reductions in estimated costs result from system upgrades and the reorganization and amalgamation of military occupations. This consolidation has significantly reduced the number of manual inputs and eliminated a high level of duplication. With the current military occupation structure, outsourcing the pay system itself would not result in dramatic personnel savings, since the entry of pay data is only one small part of the personnel administration function.

Moving the Revised Pay System for the Reserves to the Department's intranet system (the Defence Integrated Network (DIN)) would save approximately $2 million per year (or 20 percent). In order to effect this migration, National Procurement funding for the pay system would need to be maintained at the current level of $4.5 million annually for the next two years.

As noted, the direction from the Deputy Minister and Chief of the Defence Staff to streamline the pay system to position it to be reviewed for outsourcing has been given and initiatives to do so are already underway. Given this work and considering there is both an ongoing review by the Chief of Review Services and an audit of the pay system, the Committee believes that the Department is on the right track in this area. The Committee anticipates there will be potential savings from outsourcing; therefore, it supports the Department's initiatives to eliminate hard copy pay statements, reduce voluntary allotments and move the Revised Pay System for the Reserves to the Defence intranet. These initiatives should yield annual savings of $2.25 million in the short term, and additional savings in the order of $3 million to $5million in the longer term, by moving to one pay system for the Regular and Reserve Force.

Recommendation 43. Military Pay Services

The Committee recommends that the Department continue efforts to streamline the pay system and to examine options to outsource the Total Force system. As part of this effort, the Department should also:

- ***a.*** ***maintain National Procurement funding at current levels to permit the migration of the Revised Pay System for the Reserves to the Defence intranet;***
- ***b.*** ***integrate the Central Computation Pay System for the Regular Force and the Revised Pay System for the Reserves to one Total Force pay system; and***
- ***c.*** ***implement electronic distribution of pay statements and T-4 slips without delay.***

Section 3: Longer-Term Opportunities

The Committee was unable, given time constraints, to fully assess potential efficiencies of every area of NDHQ. The Committee did, however, identify two areas where it believes longer-term efficiency opportunities exist. These are military human resource management and infrastructure.

Military Human Resource Management

The Military Human Resources Group, ADM HR(Mil), is a large and complex organization; it encompasses headquarters roles and responsibilities, corporate functions, and delivers military human resource services in areas such as training, professional development, medical services, recruiting and chaplain services. The purpose of the military human resource management system is "to recruit, train, assign, motivate, care for, evaluate, retain and eventually to release people". As a system, it is widely viewed within Defence as bureaucratic and cumbersome. The Military Human Resource corporate function represents the largest single component of the Defence budget. The pure headquarters policy function of ADM(HR-Mil) is relatively small in relation to the corporate function and the service delivery function. As a result, there is a tendency for the organization to have more of a process than a policy focus.

A number of the suggestions received by the Committee related to military personnel issues; most were passed to the appropriate office within ADM HR (Mil) for follow-up.

Defence's Military Human Resource Strategy is aligned with *Strategy 2020* and contains a Long Term Capability Plan (LTCP) that forms part of the Defence Services Program (DSP). It is a five-year corporate plan with a 10-year scanning horizon.

The Committee examined areas for potential duplication and overlap, particularly between the Environmental Chiefs of Staff and with the Civilian Human Resources Group.[41] A number of the efficiency initiatives proposed for the civilian HR management function may be applicable to military HR management, particularly those related to moving from paper-based to electronic-based processes. The Employee Member Access Application, which permits individuals to view basic employee information and to submit updates on line, is a positive step in this direction that should be further exploited to reduce administration. The use of this facility to distribute electronic pay statements, which will result in annual savings in administration costs identified elsewhere in this Report, is one small example of the potential use of e-solutions.

The Committee observed that the relationship between the Environmental Chiefs of Staff (ECSs), as the force generators, and ADM (HR-Mil), with responsibility for military human resources policy, planning and programs, can sometimes become blurred. An instructive example of this was found in the training function, where the commonality between ADM (HR-Mil) and ECS roles requires a considerable degree of balance. This balance is necessary to enable the force generators to exercise sufficient control over training to ensure it is responsive and effective. At the same time, ADM (HR-Mil) must maintain sufficient central control to maximize efficiencies in the overall delivery of training. The Committee understands that attempts to achieve the proper balance in the provision of individual training are ongoing.

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[41] Areas for potential efficiencies in the area of common shared services and common program delivery between HR-Civ and HR-Mil are discussed in the civilian human resources management section of this report.

The Committee also observed that each ECS has a significant military human resources staff, primarily focused on personnel management. ECS military human resources staff deal with the unique and particular requirements of their environments, and consult with ADM (HR-Mil) staff for central policy and planning guidance. These ECS staffs each deal with specific operational personnel issues and their unique military occupation structures, selection criteria and succession planning, as well as training requirements. While this decentralized approach ensures that personnel structures meet the specific requirements of the three military environments, they also create potential overlap, duplication and inefficiencies, particularly when an environment makes decisions that have consequences for the other environments or for common occupations.

As noted, the military human resources function is large and complex. Thus a comprehensive review of the organization and its processes was beyond the capacity of the Committee, given its six-month mandate. The Committee also identified potential issues related to force structure that were beyond the assigned mandate of its review.

That said, the Committee noted that military human resource management has been the subject of numerous, extensive reviews and studies. ADM (HR-Mil) currently has in excess of 200 initiatives of varying size and scope underway.

One key review by V. Catano, I. Jackson and Brigadier-General (retired) D. MacNamara - entitled *A Framework For Effective Human Resource Management in the Canadian Forces* - was completed in December 2000. This review assessed the state of HR principles, practices and outcomes and compared them against *Strategy 2020* and best practices in the public and private sectors, as well as military organizations, using benchmark instruments designed from work done in the Public Service and by the Australian Defence Force. The report contained 22 high-level recommendations which have been captured in a detailed ADM(HR-Mil) Group Action Plan. Progress is being tracked, and reported on, on a regular basis.

The ADM(HR-Mil) Group Action Plan also identified a series of recommendations directed at enhancing efficiencies and economies of scale, which were included in an internal baseline review of the Group. This baseline review included a full review of the military establishment and the identification of areas where full-time staff, reservists and contractor support could be reduced.

Recommendation 44. Military Human Resources

The Committee endorses the recommendations of the study completed in 2000 by Catano, Jackson and Brigadier-General (retired) Macnamara, entitled* Effective Human Resource Management in the Canadian Forces', *and recommends:

- ***a.*** ***the efficiencies and economies identified in the recommendations in the ADM(HR-Mil) baseline review be fully implemented;***
- ***b.*** ***to the maximum extent possible, ADM (HR-Mil) leverage initiatives recommended in this Report for ADM (HR-Civ), particularly with respect to the introduction of electronic-based solutions to replace paper-based processes; and***
- ***c.*** ***as a practical matter, the Department consider having a follow-up review of ADM (HR Mil) conducted early in the process of cyclical expenditure reviews.***

Infrastructure

The Committee examined four infrastructure areas that it feels have potential for significant efficiencies. However, in the time available, the Committee was not able to conduct in-depth assessments or to quantify efficiencies. To do so would require considerable further study.

These areas are:

- real property management;
- realty asset rationalization and disposal;
- shared and multiple use of facilities; and
- energy efficiency and utilities management.

Real Property Management

Given the private sector's practice of treating infrastructure as an enabling, or non-core activity, the Committee was surprised by the Department's continued approach to considering infrastructure as part of force structure. This was evident in discussions with Level One managers who seemed convinced that control and delivery of real property management belongs within the Department and various Level One organizations. The Committee surmised that this view might be based more on concerns about the quality of service delivery, and confirmed this with some Level One managers and staffs. In the Committee's view, these concerns should not prevent the Department from moving forward in its efforts to seek efficiencies in the area of real property management. The Committee understands that infrastructure support for deployed forces is contracted, and it is not clear why the same approach could not be used to assess the efficiency of a similar approach domestically.

One area where efficiencies and, therefore, reduced costs may be achieved is through partnerships. Partnerships themselves are not new to the real property function.

Defence Construction Canada has provided a wide-range of services to the Department, as has PWGSC. However, only on rare occasions have agreements been entered into with either of these organizations to provide real-property support services to units outside the National Capital Region

Officials from PWGSC presented the Committee with a preliminary proposal to rekindle talks of a property management partnership with DND. Talks had previously occurred in 2001 but then were put on hold for a number of internal departmental reasons. The proposal to the Committee did not include a specific level of cost-savings, beyond a discussion based on the savings achieved three years prior, during the transfer of management of the NCR services from the Department to PWGSC. Given that this transfer consisted almost entirely of office accommodation, the Committee did not feel this was an appropriate proxy to use in determining cost-effectiveness for the management of a broad range of operational facilities.

The Committee expected that, given its extensive property management portfolio, PWGSC should possess a superior competence to manage property for DND at a considerable savings. PWGSC indicated that an increasing portion of its portfolio is contracted for support through alternate service delivery, with savings that are then passed on to the client department. The Committee was, therefore, surprised to learn through its research that another department with operational facilities had looked to PWGSC for real property management service efficiencies, but had opted to retain an internal management and engineering staff. Indeed, it chose also to enter into a private partnership with the same firm that PWGSC contracts to manage property. This led the Committee to conclude that the administration fee charged by PWGSC is significant and can lead managers to the decision to retain some core services, while outsourcing the major content to private providers. This needs to be studied in further detail.

The Committee believes that significant efficiencies are available through better use of existing or new partnerships for some or all property management services, depending on the location, facility and type of operation being supported.

Recommendation 45. Real Property Management

The Committee believes that significant efficiencies are available in the area of real property management. Defence should undertake a detailed analysis of the delivery of real property management services. Key to the analysis should be a determination of the best method(s) for the Department to access private sector resources and capabilities and how to better use existing partnerships.

Given the decentralized nature of property management in Defence, this is a recommendation that lends itself to regional analysis/implementation. The Assistant Deputy Minister (Infrastructure and Environment) should continue to work with her counterparts in developing individual solutions that make sense for specific locations, facilities and operational properties.

Property Rationalization and Disposal

The Committee did not consider Base closures as a method of achieving infrastructure efficiencies, since this was seen as a force structure issue and, therefore, outside the Committee's mandate. However, the Committee was made aware by the Auditor General of Canada that her Office has observed for many years that the Department maintains excess holdings of real property beyond what they believe is needed to support the operational requirements of the CF. The impact on the Level One operating budgets of holding excess property, and the efficiencies that could be achieved by divesting of such property, are potentially considerable.

Defence has already made attempts to reduce its infrastructure holdings by developing a 10 percent Realty Asset Rationalization Plan for each Level One responsible for managing real property. Revenue from such disposals is, and would be, returned to the Department for re-investment in infrastructure. However, existing government property disposal procedures for both strategic and non-strategic real property assets are lengthy and resource-intensive, making re-investment of such funds difficult.

The Committee was particularly impressed with the work of the Assistant Deputy Minister (Infrastructure and Environment) in developing innovative strategies to deal with the disposal of realty assets. A key initiative, currently under development, is the 'early transfer option'. The concept is to consolidate the occupants on a Base/Wing to a single, smaller portion of the total area of the Base/Wing so that the remaining property can be severed and transferred to an external agent for eventual disposal. While up-front investment is required for the consolidation phase, part of the strategy is to transfer pre-disposal tasks that currently fall within the Department's mandate to the agent and to gain disposal revenue. The agent being considered to facilitate this strategy is the Canada Lands Corporation.

Recommendation 46. Real Property Rationalization and Disposal

The Committee noted that it was to the advantage of Level One organizations to pursue an aggressive realty rationalization target. The Assistant Deputy Minister (Infrastructure and Environment) should continue to work with those Level One managers that are real property custodians to dispose of excess holdings. A formal departmental level disposal plan for strategic property, including a forecast of disposal revenues, should be developed based on those plans. The investment of these revenues should form part of the annual development of the Strategic Capabilities Investment Plan.

The Assistant Deputy Minister (Infrastructure and Environment) and the Department should also actively continue to develop the early transfer option through consultation with appropriate Level One managers and necessary government departments, and by selection of a pilot site from those sites currently awaiting disposal.

Shared and Multiple Use of Facilities

Other areas of property management innovation within the Department are shared and multiple use of facilities. The Committee was encouraged to hear examples where Defence has entered into arrangements with other organizations to share the use of facilities. Her Majesty's Canadian Ship Donnacona (Montreal)[42] and the Windsor Armoury (Ontario)[43] are two examples of such innovation. The Department is also pursuing an opportunity for multiple use of an existing armoury in the Vancouver area so that unused space can be used for public parking and other activities. Given the size of the Department's realty asset portfolio, such steps are only the beginning of what could be a significant program of efficiencies. The Committee believes that such partnerships and opportunities should be actively pursued to ensure maximum use of existing facilities. As the property manager for the Government of Canada, PWGSC has unique insight into such opportunities, and has indicated to the Committee its willingness to work with the Department in increasing partnerships with other government departments in this area.

Recommendation 47. Sharing Facilities

The Department should actively pursue opportunities for shared and multiple use of existing and new facilities, with appropriate potential partners, particularly other government departments. This can be achieved in partnership with Public Works and Government Services Canada.

Energy Efficiency

The Committee was pleased to see that many Bases/Wings have undertaken to become more energy efficient through a variety of means. Whether by educating their populations or participating in the Federal Buildings Initiative, steps have been underway for some time to increase energy efficiency. These initiatives have had the added benefit of allowing many Bases/Wings to invest in capital equipment and achieve more efficient use of utilities through energy performance contracts and thus become more cost effective.

ADM (IE) staff expressed an interest in being able to provide additional support to Base/Wing-level staff in utilities management. Significant resources and decision-making responsibilities have been devolved to Bases/Wings in past years. More recently, utilities markets were deregulated in many jurisdictions requiring Bases/Wings to make operations and utilities trade-off decisions in an environment of increased risk. The Committee considered this to be an area of possible efficiency that, with limited investment in analysis or training, could lead to partnerships with others to increase purchasing power, or lead to more informed decision-making. The Committee did not have the time to consider savings in energy procurement in detail, but notes that a departmental review in this area has already been initiated, and supports this effort.

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[42] A shared arrangement with the Royal Canadian Mounted Police.

[43] A shared arrangement with the City of Windsor.

Recommendation 48. Energy Efficiencies Resource Centre

Defence, led by the Assistant Deputy Minister (Infrastructure and Environment), should actively continue to pursue energy efficiencies and enhance utilities management. In view of the current deregulated utilities environment, ADM (IE) should take on a greater role in this area by assisting Level One managers in identifying opportunities within geographic regions. This might be accomplished, in part, by establishing a Resource Centre to develop expertise in this area and to provide information and support to Managers responsible for managing utilities.

Advice on Implementation

The Committee recognizes that some of its recommendations may be difficult to implement and is eminently aware that a high level of 'change fatigue' already exists in Defence. Therefore, having presented its detailed findings and recommendations in the preceding sections on Management Enhancements, Administrative Savings and Longer-Term Opportunities, the Committee believes that specific advice on implementation is warranted.

The recommendations in this Report present the Minister of National Defence, the Department and the Canadian Forces with two distinct challenges. They are:

- to transform Defence's national-level governance, management practices and decision-making processes to support and thus enable the transformation of the military capabilities of the Canadian Forces; and
- to implement the Committee's specific recommendations for achieving administrative efficiencies.

Transformational change represents a significant undertaking. Indeed, when faced with the need for significant transformation, many private sector corporations rely either on a 'chief restructuring officer' or appoint a chief executive officer with a specific change mandate and a long-term tenure (e.g., 10 years). Neither of these models can be adapted directly to the unique requirements of Defence.

That said, the Committee believes that transformational change is essential to the future of Defence, and will require new thinking and deliberate departures from the status quo. It also firmly believes that if the Department and the Forces are to move beyond their inconsistent record of implementing strategic-level change and address the fundamental issues that they face, a full-time 'change agent' is required at a senior level[44]. The Committee therefore recommends that the Minister of National Defence consider appointing a senior official for a five-year term to lead transformational change in Defence. This official would be supported by a small dedicated team of public servants and CF members. The team would work with, but independently from, the staffs of the Department and the Forces.

The principal role of this 'change agent' would be to lead Defence's transformation efforts, including those involving national-level governance, management practices and decision-making processes, and to monitor implementation of this Report. This would include the need to 're-think' the role of NDHQ, and to integrate management and business transformation with other transformational initiatives already underway within the Department and the Forces. This official would also be well positioned to help Defence leverage further efficiencies and transformation opportunities with other government departments, and with Canada's allies, where applicable. In brief, this official would serve as the focal point for the Minister, Deputy Minister and Chief of the Defence Staff for leading management transformation and for integrating the recommendations of this Report with the broader transformational issues shaping the future of the Department and the Canadian Forces.

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[44] This approach is being used in the United States where Defense Secretary Donald Rumsfeld appointed retired Vice Admiral Arthur K. Cebrowski as the Director of Force Transformation in October 2001, reporting directly to the Secretary and Deputy Secretary of Defense.

This 'chief of transformation' would report directly to the Minister, but work closely with and be responsive to the Deputy Minister and the Chief of the Defence Staff. He or she would also need to have a very strong working relationship with the Vice Chief of the Defence Staff, as the transformation of strategic-level management in Defence must be linked to, and play a critical role in, enabling and supporting the broader transformation of Canada's military capabilities. In the Committee's view, the 'chief of transformation' should report to the Minister every six-months on transformational change within Defence and provide oversight perspective on the implementation of this Report.

Success in this role would require a senior official with extensive government experience, a thorough understanding of Defence, an appreciation for the opportunities and challenges presented by new technology and a strategic perspective. He/she would also have to be credible in the eyes of the Defence leadership team, the government and the Canadian public. Finally, he/she would need to demonstrate interpersonal, team-building and communications competencies of the highest order.

The Committee is of the view that implementation of most of its specific recommendations to enhance management and improve efficiencies can be carried out under the existing authorities of the Minister, the Deputy Minister (DM) or the Chief of the Defence Staff (CDS). While successful implementation will require the personal involvement and leadership of all three of these individuals, the DM and the CDS should also make individual Level One managers accountable for specific initiatives that flow from the Committee's recommendations. Accountability for implementation must be clear, with visibility established at the corporate level and by assignment of desired outcomes to specific Level One 'champions'. This accountability should be clearly established in Performance Management Agreements, and should be used to determine a significant portion of the Level One manager's 'at risk' pay throughout the implementation period. These champions should be required to provide the DM and CDS with implementation plans, which identify resource needs, barriers to implementation and risk management strategies. In turn, the DM and CDS should provide regular status reports on implementation to the Minister.

Achieving administrative efficiencies will require a process of continuous improvement at all levels, while transformation will require new thinking and deliberate departures from the status quo. Both are important, and from this point forward, it is important that they be closely linked, that there be transparency and unity of purpose, and that there be a process and discipline that will not allow either to falter. Success in meeting each of these challenges will require committed, active leadership and clear the establishment of accountabilities. Establishing this clear accountability for results will not only help to implement this Report, but will also be a further important step in the pursuit of management transformation in Defence.

The Committee believes that the importance of the roles of the DM and the CDS cannot be overstated. Their success will be measured by how well they set clear, action-oriented corporate priorities, by their ability to tie the allocation of resources to measurable results and outcomes, and by how they establish individual accountability. They will also be key to establishing momentum, operationalizing transformation, and institutionalizing change across Defence. In addition, they must continue to play their critical roles of advising and supporting the Minister in setting the strategic direction for Defence for the future. Domestically, horizontal inter-departmental coordination will be required, particularly with Public Works and Government Services Canada and with the central agencies of government. Internationally, consultation and collaboration will be required with Canada's allies and defence partners.

Concluding Remarks

As highlighted throughout this Report, the essential element in the successful implementation of the specific recommendations in this Report and in achieving transformation will be active, engaged leadership from the Minister of National Defence, the Deputy Minister and the Chief of the Defence Staff. Their commitment to the thrust of this Report and to transformation must also translate into the engagement and support of the entire Defence senior management team and, indeed, every level of the organization.

Leadership will be measured by whether corporate decisions are converted into local actions that produce administrative efficiencies and that truly transform the institution. The savings in time and money from this Committee's recommendations, building on the good work that the Committee knows is underway across the Department of National Defence and the Canadian Forces, will help to support the Minister's efforts to reallocate resources from lower to higher priorities within the Defence program. The Committee fully supports his initiative and understands the need to focus resources on the essential military capabilities that will deliver on the Defence mission today and in the future:

The Committee firmly believes that the first step in answering the question posed by the Chief of the Defence Staff in his report *A Time for Transformation,* as to "…how best to achieve the required transformation", is to begin with transforming the fundamental management practices of National Defence Headquarters. This change is not only key to achieving higher levels of administrative efficiency, it is also critical to enabling the transformation of the Canadian Forces.

As the Minister of National Defence noted in a speech in October 2002:

"…any large organization has silos, bureaucracies and waste…I believe that the leaders of all such large organizations have a duty to push for continuous change and for restructuring. Now, my predecessors as well as the military leadership have brought about tremendous change in defence in recent years. So we can't afford to stop now, change has to be continuous, it's always a work in progress."

The Committee believes that the fundamental transformation of Defence's national-level management framework is an urgent priority for the Department and the Canadian

Forces. Defence's management practices, processes and culture must be re-positioned and re-focused on a management framework that emphasizes clear accountabilities, responsibilities and authorities that enable strategic, corporate-level decision-making and decentralized execution.

This management transformation is vital to the Minister's and the CDS' mutual efforts to achieve higher levels of efficiency and support the transformation of the military capabilities of the Canadian Forces. The Committee is convinced that, in this effort, a 'business as usual' approach will not suffice.

ANNEX A: Summary of Recommendations

Recommendation 1. *Re-thinking NDHQ*

It is the Committee's experience that smaller headquarters tend to remain strategic in focus, while larger ones inevitably involve themselves in transactional issues. Accordingly, the Committee recommends that a thorough review of NDHQ be undertaken in two domains:

a. ***Defence should examine the fundamental role of NDHQ, with a view to restricting it to truly strategic functions (i.e., policy, strategic planning, resource allocation, etc.), where enabling functions and services (such as procurement, program delivery, support functions, etc) are executed outside of the headquarters; and***

b. ***that a thorough review of each of the Level One organizations within NDHQ be carried out, in the context of the annual review of Business Plans, so as to ensure that:***

- ***the roles, responsibilities and outcomes that are expected from each are clearly articulated and that the resources allocated to them are linked to the achievement of results or outcomes;***
- ***each is subjected to a 'first principles' review to confirm its primary purpose, to remove those functions that do not specifically need to fall within its purview, and to ensure there is no overlap or duplication in resource utilization either within individual Level One organizations or between Level One organizations at NDHQ and elsewhere within DND and the CF;***
- ***the utilization of resources is justified and is both efficient and effective, with an ongoing focus on saving resources for reallocation from administrative overhead to operations; and***
- ***where the work being conducted is strategic in nature and in scope, the outputs are also focussed at that level.***

Recommendation 2. *Reporting on the Size of Organizations*

The Committee recommends that, beginning immediately and as an element of performance and regular resource management reporting, senior management be provided, by responsibility centre, the number of military members, civilian employees and contracted individuals employed both in NDHQ and elsewhere in the organization.

Recommendation 3. *Management Philosophy*

The Committee recommends that DND and CF organizational design and functioning should be aligned with a management philosophy that is based on centralized strategic direction and decentralized execution by empowered Level One managers, with an appropriate re-allocation of resources between levels and functions that is reflective of this approach.

As part of this effort:

- ***a.*** ***the focus of senior committee structures should be on achieving results and outcomes and positioning information for decision-making in support of these objectives;***
- ***b.*** ***the time that committees spend on passing information should be better controlled and, where possible, reduce (additionally, a stronger emphasis should be placed on value-added inputs from Level One managers);***
- ***c.*** ***the current desire to achieve consensus in decision-making should not be allowed to dilute individual accountabilities or undermine decision-making;***
- ***d.*** ***the number of 'next level down' committees should be consolidated and/or reduced; and***
- ***e.*** ***the DM and CDS should continue to refine and strengthen the Performance Management Program for DND's Public Service Executives and the CF's General Officers, as recently outlined by the President of Treasury Board in response to the Sixth Report of the Advisory Committee on Senior Level Retention and Compensation.***

Recommendation 4. Creation of a Senior Executive Committee

The Committee recommends that corporate, strategic-level decision-making be streamlined through the creation of a Senior Executive Committee. This would entail the following changes:

- ***a.*** ***participation in corporate decision-making at the highest level should be largely restricted to those whose role and function is both strategic and corporate;***
- ***b.*** ***to this end and as the focal point for corporate decision-making, the Committee recommends the creation of a Senior Executive Committee, chaired by the Deputy Minister and Chief of the Defence Staff, and composed of the following executives -***
    - ***Associate Deputy Minister,***
    - ***Vice Chief of the Defence Staff (VCDS),***
    - ***Deputy Chief of the Defence Staff (DCDS),***
    - ***Assistant Deputy Minister (Policy), and***
    - ***Assistant Deputy Minister (Finance and Corporate Services);***
- ***c.*** ***this Committee would be senior to the existing Defence Management Committee and should deal primarily with forward-looking, strategic issues, focusing on Defence policy, strategic planning and direction, capability planning, resource allocation at the strategic level, and performance management; and***
- ***d.*** ***attendance at this Senior Executive Committee could be expanded by invitation to include specialist advisors in observer status.***

Recommendation 5. Adjustments to Existing Committees

The Committee further recommends that existing key committees be refocused as follows:

a. ***the Defence Management Committee's agenda should be both forward looking and reflective in nature and should focus on pan-departmental issues of strategic importance -***
  - ***it should deal with the ongoing management of DND and the CF in terms of Business Planning, reporting on performance and resource utilization; and***
  - ***it should play a substantial role in performance management and in critical/high-profile issue management, and be less of a forum for routine information briefings;***

b. ***the current Daily Executive Meeting should continue as a forum for providing information briefings, and for focussed discussions on key issues of strategic or operational importance which require immediate attention at the senior executive level;***

c. ***the mandate and role of the Joint Capability Requirements Board (JCRB) should be expanded and tasked to play the lead role in integrating planning at the earliest possible stage and spearheading the annual development of a Level Zero Strategic Plan (the Defence Plan), and the Committee should be renamed to better reflect its expanded role and mandate;***

d. ***the role of the Program Management Board (PMB) should be examined, to determine whether or not there is a need for this Committee, or whether its functions would not be better served if carried out under the new expanded terms of reference for the JCRB;***

- ***the terms of reference for this integrated planning function should be updated, regardless of where it is assigned, to conform with the revised resource management framework that is being recommended in this Report;***
- ***the role should be less interventionist and be based on a 'management by exception' approach, with a particular focus on significant issues that either impact on or add value to strategic outcomes, encompassing:***
  - ***the maintenance of transparency as to the overall prioritization, allocation and consumption of resources against military priorities, including those allocated under functional plans and corporate accounts that support the operations of the Canadian Forces;***
  - ***the review of major equipment and system acquisitions that would either support or be deployed within the operations of the Canadian Forces;***
  - ***consideration of the consequences of significant deviations in planned spending or results achievement against business plan activities that impact the operations of the Canadian Forces; and***

- ***the current role of being a 'clearing house' for routine resource management issues should be left to responsible managers to resolve within the scope of their respective approved Business Plans.***

Recommendation 6. Risk Management

The Committee recommends that senior management should, building on the existing Integrated Risk Management framework, adapt its approach to the management of risk across DND and the CF to one in which:

- ***a.*** ***the focus is on managing risk effectively rather than avoiding it, based on a common understanding of risk management and an appropriate delineation of risk thresholds at each management level;***
- ***b.*** ***the 'one size fits all' template currently used is replaced with a more differentiated approach that accepts risk where appropriate, manages it effectively, and is accepting of the consequences of legitimate errors;***
- ***c.*** ***training for risk management is embedded in the DND and CF management and leadership development programs; and***
- ***d.*** ***the approach is balanced and applied consistently.***

Recommendation 7. Strategic Planning

Building on the initiatives already underway, the Committee recommends that strategic planning continue to be strengthened, with particular emphasis in the following areas.

- ***a.*** ***Defence should refine its understanding of its 10-15 year (Horizon 2) capability requirements and bring to bear: clearer prioritization, better identification of key decision and implementation milestones, and more explicit linkages to Allied initiatives and to technological development.***
- ***b.*** ***Strategic planning must be given an increased corporate perspective, through increased centralization and a strengthening of the VCDS responsibility for strategic planning.***
- ***c.*** ***Defence must place greater emphasis on 'top-down' direction based on a broader CF perspective. This will involve administering the JCRB planning process as a seamless follow-through of the strategic planning function with the VCDS focusing on what capabilities are required and ECS planning staffs focusing on how to achieve them. This change should largely alleviate the 'bottom-up' dynamic that currently dominates the process.***
- ***d.*** ***Defence must move vigorously to complete the development of an implementable Strategic Capability Investment Plan (SCIP). The Committee believes this is crucial for providing coherence and focus to strategic planning efforts. The SCIP should be an integral planning document structured around capabilities, not solely equipment. This will require the increased integration of HR, infrastructure, IM and other enabling functions.***

e. ***The Strategic Plan should address implementation issues including resources, risk assessment and time limitations, and include an assessment of any constraints that they may bring to bear in terms of achievability. As a logical follow-on, the JCRB should continue its capability focus through its ongoing development of the SCIP and by ensuring coherence of the 10-15 year (Horizon 2) initiatives, etc. The VCDS, as Chair of the new JCRB, should continue to play the central role in overseeing mechanisms for the strategic allocation of resources to military priorities, more effective performance and risk management and improved performance reporting.***

Recommendation 8. A Strategic Focus for Resource Management

The Committee recommends an improved strategic focus to resource management, including the following actions:

a. ***the DM and CDS should focus on making strategic level resource allocations based on a Level Zero Strategic Plan (currently issued in the form of the Defence Plan), augmented by a sound SCIP including the following elements – capital equipment, construction, National Procurement, human resources, IM and communications plans;***

b. ***a more forward looking approach to resource management should be adopted in which resource inputs are better linked to results or outcomes and to identified risk management strategies;***

c. ***the onus should be placed on Level One managers to make necessary trade-offs in consonance with corporate priorities, in fulfilling the objectives, goals and outcomes required from their respective Business Plans, with only exceptional issues that go beyond the scope of these Plans being raised to the corporate level for guidance or resolution;***

d. ***as a key element of this approach, Defence's annual corporate priorities should be refined and clarified so as to be of better assistance to both corporate and Level One managers in decision-making;***

e. ***senior management information requirements should be more clearly specified and the necessary steps taken to ensure that the information required to support strategic decision-making is readily available in user-friendly report format; and***

f. ***information presented in support of strategic decision-making must provide senior management with a balanced assessment of the impacts and risks associated with a particular course of action.***

Recommendation 9. VCDS/ADM (Fin CS) Responsibilities

The Committee recommends that the roles and responsibilities of ADM (Fin CS) and the VCDS should be realigned and updated in consonance with the Government's policy on Modern Comptrollership. This should include the following key considerations:

a. ***The ADM (Fin CS), as the Senior Financial Officer for DND, would be accountable and responsible to the DM for all finance functions, resource***

management and reporting at the strategic level and responsible to both the DM and CDS for finance functions related to CF operations at home and abroad, and responsive to the CDS for financial advice and guidance. The VCDS would be the advisor to the DM and the CDS on the allocation of resources against military priorities from within the strategic allocations and in dealing with the major operational and program issues that impinge on the achievement of the desired outcomes or results.

b. ***In practice, this re-alignment of responsibilities would enable the VCDS to focus his efforts on:***

- ***strategic planning - to include the development of the Level Zero Strategic Plan, based on the multi-year strategic financial planning levels, including those approved by the DM, in consultation with the CDS, for each of the DM's Level One direct reports;***
- ***the integration of business planning, risk management and performance management as a basis for the strategic allocation of resources against military priorities; and***
- ***those issues that would have a strategic impact on DND and the CF, and/or would require adjustments to existing priorities.***

c. ***ADM (Fin CS) would then be better positioned to:***

- ***carry out responsibilities for liaison on all financial and budgetary matters with the Treasury Board Secretariat, the Department of Finance and the Privy Council Office;***
- ***maintain the financial planning and accounting systems required to support the annual and longer-term financial and budgetary framework needs of DND and the CF;***
- ***provide in-year management of those financial issues that were beyond the capacity of Level One managers to resolve; and***
- ***execute the Senior Financial Officer's responsibilities in financial management and reporting.***

Recommendation 10. Business Planning

The Committee offers the following recommendations to strengthen the business planning function:

a. ***business planning should be based on a model in which the DM and CDS make strategic level trade-offs between Departmental and Canadian Forces priorities, based on the work-up of the DND and the CF strategic financial plan prepared by ADM(Fin CS);***

b. ***the longer-term strategic resource management framework should set out the multi-year allocation of resources to the direct reports of the Deputy Minister and the multi-year allocation of resources for personnel, Operations and Maintenance (O&M) and capital funding for the Canadian Forces;***

c. ***this long-term resource management framework and the multi-year allocation of resources in turn would be used as input for the development***

of the annual Level Zero Strategic Plan (the Defence Plan), including the Strategic Capability Investment Plan (functional managers would be accountable for preparation, for approval by the DM and CDS, of central functional plans including the Strategic IM, the Civilian Human Resources, the National Procurement, infrastructure and the National Defence Communications plans);

d. ***Level One managers would then prepare Business Plans that conform to their objectives, goals, assigned tasks and allocation of resources, as well as to the direction and guidance contained in the functional plans;***

e. ***Level One business plans would then become the vehicle around which the allocation of resources to each Level One manager would be reviewed and decided, with tradeoffs being made, where required, with a full knowledge of the impact on the outcomes set out in the Business Plan;***

f. ***Level One managers should then be empowered to make trade-offs within the approved scope of their Business Plans, based on potential impacts and risk mitigation strategies;***

g. ***the achievement of results or outcomes could then be monitored against Business Plans through a more strategic approach to performance management and performance reporting (these plans could then be used more effectively as management tools, allowing Level One managers more flexibility in managing their existing resources); and***

h. ***Business Plans should cover three years, with the focus on years two and three of the plan being more strategic in nature, thus requiring senior managers to adopt a more forward-looking view and to provide a more predictable paradigm for Level One resource planning.***

Recommendation 11. Corporate Accounts

The Committee recommends the following enhancements beyond the existing approach to corporate accounts:

a. ***the number of corporate accounts should be reduced to the absolute minimum required, with budgets allocated to the greatest extent possible, through the normal business planning process;***

b. ***the day-to-day management of corporate accounts themselves should also be incorporated into business plans, along with increased managerial flexibility within the scope of approved business plans; and***

c. ***this would necessitate the inclusion of corporate account spending into the business plans of the responsible Level One manager (e.g., capital equipment, National Procurement, capital infrastructure funding, etc.) as a basis for establishing accountability, performance reporting and performance management.***

Recommendation 12. Roles of JCRB and PMB in Resource Management

The Committee recommends that the roles and responsibilities of JCRB and PMB should be revised so as to provide a means for requiring Level One managers to come forward for guidance or decisions that go beyond the scope of their own Business Plans, or that have a substantial impact on prescribed outcomes as set out in Business Plans or in the Defence Plan. This would require sound judgment and extensive consultation in setting the precedents for the kinds of issues that should be brought forward under this requirement.

Recommendation 13. Performance Management

The Committee offers the following recommendations aimed at building on Defence's recent progress with regard to performance management:

- ***a.*** ***in addition to the 'vertical' five-year cyclical reviews, periodic 'horizontal' reviews should be executed to ensure consistency of approach and effective resource utilization across the various functions (human resources, information management/information technology, infrastructure, equipment life cycle support, etc.); and***
- ***b.*** ***more specific linkages between business plans and their results, outcomes and senior manager's performance appraisals, including 'at-risk' pay, should be established.***

Recommendation 14. Management Preparation

In addressing this issue, the Committee notes both the constraints under which DND and the CF operate and the time required to implement strategic change particularly in the area of organizational culture. This having been said and building on the progress recently made, the Committee believes that:

- ***a.*** ***the CF must place greater focus on preparing selected military officers for institutional leadership (This will entail earlier promotion for promising Colonels and Brigadier-Generals, more tailored employment patterns and succession planning that provides improved opportunities to acquire experience in strategic-level leadership within NDHQ. It should also involve increased exposure of senior officers to machinery of government issues, including the greater use of secondments to other government departments);***
- ***b.*** ***those officers who will rise to the most senior positions must be provided with appropriate exposure as they move upwards in the rank structure, such that they will have been members of the senior cadre for sufficiently long periods to enable them to bring depth of experience, stability and continuity to the organization; and***
- ***c.*** ***these principles apply equally to the preparation of civilian executives.***

Recommendation 15. Strategic Approach to Change

The Committee believes that Defence must go well beyond its current incremental, continuous improvement focus and:

- ***a.*** ***adopt a more strategic approach to change that is driven by senior management, linked to the improved achievement of results, with the desired outcomes embedded in business plans and performance management agreements;***
- ***b.*** ***ensure an improved understanding of 10-15 year target capability end-states, which, in turn, will provide goals linked to desired results and outcomes;***
- ***c.*** ***continue to include specific 'Change Initiatives' in the Defence Plan, but ensure that they remain focused on strategic issues, be reduced in number to those that will have the greatest positive impact and be allocated transitional and steady-state resources where necessary; and***
- ***d.*** ***establish 'stretch targets' as change management goals that are achievable and create a better understanding of both the cost of obtaining these goals and the expected benefits to be achieved in terms of results or outcomes.***

Recommendation 16. Continuous Improvement

The Committee notes the current VCDS-led continuous improvement initiatives and recommends that these be supported, but that the number of dedicated staff functionaries involved, across Defence, should be rationalized and given a facilitation role rather than one of leading change.

Recommendation 17. Corporate Priorities

The Committee is of the view that more specific wording is required in the formulation of corporate priorities, in order to ensure clarity and usefulness in decision-making throughout the organization. These priorities should be ranked, to assist lower level decision-makers in making trade-offs.

Recommendation 18. Change Management

The Committee strongly believes that strategic change should be driven from the top by the DM and CDS and, where appropriate, embedded in the scope of responsibilities of Level One managers, with these managers playing a stronger role as champions of change.

Recommendation 19. Duplication between DND and PWGSC

The Committee recommends that the Minister of National Defence seek the delegation of additional contracting authorities for acquisition of military unique requirements and the establishment of a specialized procurement group in DND. If the Government chooses to maintain the dual accountability structure for the procurement of military requirements, the Committee recommends that implementation of the results of the work conducted under the Procurement Reform Initiative and the inter-

departmental review be accomplished through a written directive, in order to effect a timely separation of activity.

Recommendation 20. Capital Equipment Approval Process

The Committee recommends that DND consider streamlining its internal capital equipment approval process. A proposed process is provided at Appendix 1 to Annex A for consideration.

Recommendation 21. Expenditure Authorities

The Committee recommends that the Minister seek increased levels of expenditure authority to $60 million for capital equipment projects and increase the levels delegated throughout DND.

Recommendation 22. Capital Projects Close-Out

The Committee recommends that DND continue its efforts to close capital projects as soon as possible. DND could do this by:

a. linking success in closing projects 'on time' to the performance assessment of the Project Manager;

b. developing and implementing motivation bonuses to encourage the early closure of projects; and

c. critically reviewing projects at their forecast closure dates or if systems are delivered earlier, to determine what work remains, whether it is required, how it should be completed and how it should be funded.

Recommendation 23. Contractor- Held Spares

The Committee recommends that the Assistant Deputy Minister (Materiel) critically examine the current inventory of contractor-held spares with a view to reducing it to the maximum extent possible and ensuring optimal levels of spares are held in the future.

Recommendation 24. Major Weapons Systems Disposal

The Committee recommends that DND and the Canadian Forces be more disciplined in the use of resources devoted to the disposal of major weapons systems and the time over which they continue to maintain such assets for potential sale.

In particular the Committee recommends that:

a. when DND declares equipment surplus and decides that it should be sold as a useable asset, it establish a sunset clause to identify how long it is committed to maintaining the equipment;

b. DND establish a separate account and a separate budget to fund the costs of disposal in order to provide cost visibility, regular re-validation of the prospects for sale, and for those circumstances where prospects are deemed to be good, to help ensure the equipment is properly maintained so as to uphold its sales potential;

c. ***DND adhere to the planned life cycle for equipment, including clear timelines for disposal, and that the directorate responsible for disposal work with others in the Department to determine the optimal period to declare equipment surplus (i.e., when high demand from prospective buyers would yield the greatest returns);***

d. ***[...]; and***

e. ***DND critically review the disposal activities and prospects for sale for the other major systems it has already declared surplus in order to identify further opportunities for savings (DND needs to balance the desire to get the most money possible from the sale of surplus assets against the time and money devoted to those goods at the expense of ongoing operational requirements).***

Recommendation 25. Inventory of Software Licenses, and Computer Hardware and Consolidation of Requirements

The Committee recommends that Defence increase the visibility into departmental assets for software and computer hardware, and maximize savings in the procurement of these commodities through consolidation.

The Committee has the following specific suggestions:

a. ***DND should fully support the designation of the Assistant Deputy Minister (Information Management) as the central service provider for information technology and related services in DND; and***

b. ***as part of his role to centrally manage software and computer hardware, the Assistant Deputy Minister (Information Management) should work with Assistant Deputy Minister (Materiel) procurement authorities and Level One staffs to:***
    - ***establish and maintain hardware and software inventories that could be referenced to determine whether new departmental requirements can be met through surplus capacity or whether procurement action is required; and***
    - ***forecast departmental software and hardware requirements in order to consolidate purchases to the greatest extent possible. Maximum usage of available government-wide procurement vehicles should be made for common requirements in order to leverage government level buying power and maximize savings.***

Recommendation 26. Terms and Conditions of Software Licenses

The Committee recommends that DND create a tighter, more disciplined review process for software license inventory and acquisition in order to enhance its negotiating position on license agreements, maximize license flexibility, and minimize costs.

Recommendation 27. Enterprise Service Provider

The Committee recommends that Defence proceed immediately with the consolidation of IT Services by establishing, under the Assistant Deputy Minister (Information Management), an Enterprise Service Provider (ESP) to manage Defence

IT infrastructure and to coordinate all IT services, consistent with the IM Strategic Review. As part of this effort, Defence should:

- ***a.*** ***initially focus on the National Capital Region (In order for this approach to be successful, all National Defence Headquarters and National Capital Region organizations must participate. 'Opting out' must not be an option);***
- ***b.*** ***place particular emphasis on addressing service delivery standards, making responsiveness to user requirements a top priority;***
- ***c.*** ***once proven in the National Capital Region, extend the concept of operations for the Enterprise Service Provider approach to managing the Defence IT infrastructure and consolidating all IT services, including configuration management, support and acquisitions, to all Bases and facilities across Canada, and for deployed operations;***
- ***d.*** ***continue with initiatives to rationalize and consolidate the current IT infrastructure, improve cost visibility and replace contracted services with public servants where analysis shows potential efficiencies; and***
- ***e.*** ***work to separate non-core IT and core IM by 2005 in order to reduce over-emphasis on technologies and facilitate movement towards the concept of IT as a 'commodity' and to focus efforts on IM (or management of information) priorities.***

Recommendation 28. Evolve Partnership with PWGSC for IT Service Delivery

The Committee recommends that Defence continue to pursue a progressive, evolving partnership with Public Works Government Services Canada (PWGSC) to deliver IT Services in the National Capital Region, noting that:

- ***a.*** ***such a partnership could facilitate the preparation of single government proposals for IT services and telecommunications rates, as well as for IT common hardware and software procurement (The two departments should target a two-year time frame, coincident with the expiration date of the current contractual arrangements for telecommunication services);***
- ***b.*** ***success in this area would further serve to build confidence levels on the part of both departments in any potential future partnerships, foster mutual understanding of requirements and constraints, and manage expectations; and***
- ***c.*** ***third party/independent facilitator support should be considered – either from within government or an external agent - in order to ensure potential synergies are fully (and impartially) investigated, and given that both organizations (PWGSC and DND) have significant current and projected workloads.***

Recommendation 29. Enterprise Resource Planning

The Committee recommends that Defence not pursue a single Enterprise Resource Planning solution as an efficiency/savings measure. Rather, the Committee believes adoption of the 'virtual' Enterprise Resource Planning approach, coupled with

acceleration of the IM Strategic Review implementation timelines, would promote timely and more effective integration. To this end, Defence should:

- ***a.*** ***continue to consolidate the oversight and management of the Enterprise Resource Planning under a single organizational entity, reporting to the Assistant Deputy Minister (Information Management),; and***
- ***b.*** ***charge this entity with the responsibility to ensure lessons learned from Enterprise Resource Planning implementation undertaken to date are brought forward and factored into decisions related to the future evolution of the core IM and Knowledge Management (KM) functions.***

Recommendation 30. IM Strategic Review Implementation

The Committee recommends that Defence aggressively move forward to implement recommendations of the IM Strategic Review. As part of these efforts, Defence should:

- ***a.*** ***clearly articulate accountabilities, responsibilities and authorities and significantly improve IM governance and internal communications required to adopt an Enterprise Model;***
- ***b.*** ***direct the Assistant Deputy Minister (Information Management) to develop an annual strategic information management plan that would be approved by the DM and CDS and attached as an addendum to the National Defence Strategic Plan (this would serve as a functional plan complementing the SCIP to be used by all Level One managers as direction and guidance in the management and administration of information within their organizations and across Defence);***
- ***c.*** ***recognize the critical role of IM in supporting business and service delivery transformation initiatives and, where practicable, increase up-front investment and advance timetables; and***
- ***d.*** ***separate the core IM and non-core IT functions, to facilitate concentration on core IM and Knowledge Management challenges, as well as to effectively deal with other business and service delivery transformation challenges and opportunities. The Defence senior leadership must be fully engaged, if the requisite accelerated pace, momentum and commitment to implementation are to be maintained.***

Recommendation 31. Re-Engineer Civilian HR Management

The Department should accelerate and broaden its efforts to modernize and re-engineer civilian human resource management.

This broad-based effort should include the following key elements.

- ***a.*** ***Defence should raise the profile of civilian human resource management and administration across the institution by:***
  - ***making the comprehensive re-engineering of the civilian human resource management function an institutional-level priority;***
  - ***strengthening corporate reporting on civilian human resources management in Level One Business Plans; and***

- ***embedding objectives and expectations for civilian human resource modernization and management renewal into Performance Management Agreements at all levels, from Level One down to the Director/Colonel level.***

b. ***Defence should also improve the strategic management of the civilian human resource management function by:***

- ***completing the integration of civilian human resource strategic planning with strategic capability investment planning;***
- ***aligning the civilian human resource Performance Measurement Framework with human resource modernization;***
- ***improving data quality, reliability and increasing the value placed on data;***
- ***developing more robust performance metrics to better measure desired outcomes such as service quality and employee beliefs regarding the quality of their work experience and future career prospects;***
- ***strengthening quantitative indicators of performance;***
- ***developing and issuing an annual strategic civilian HR plan, building on existing annual HR functional guidance;***
- ***placing a high priority on the planned upgrade of the HR Management System (PeopleSoft) to Version 8.0; and***
- ***making functional heads jointly accountable with ADM (HR Civ) for the development, nurturing, and well-being of their respective functional communities within DND.***

In this regard, functional heads should be specifically accountable for and supported by ADM (HR-Civ) in:

- ***providing leadership in community recruitment, mentoring, retention and professional development programs;***
- ***overseeing the development and maintenance of generic and specialized job descriptions (in collaboration with ADM (Human Resources – Civilian) for use within their community, and for putting these on-line; and***
- ***ensuring that professional standards are being observed within Defence by auditing job descriptions and by having functional representation on recruitment and promotion boards.***

c. ***Finally, the Department should accelerate the development of strategies to address emerging demographic challenges by:***

- ***pursuing more aggressive employment strategies that make DND an attractive place to work for prospective employees -- capitalizing on public service values, career opportunities, job security, diversity, and the quality-of-work experiences;***

- ***identifying key civilian skill sets needed over the coming 10 years in terms of classification and numbers, and developing strategies for recruitment, skills enhancement, and retention;***
- ***designing external and internal recruitment processes and practices that give DND a competitive edge in attracting the right recruits in the right numbers;***
- ***collaborating with the heads of functional communities, ADM (Human Resources - Military), and ADM (Public Affairs) to build on existing programs and enhance the Department's and the Forces' presence in the labour market via recruit advertising and its outreach networks, targeting universities and colleges in particular;***
- ***strengthening the image of Defence as an employer of choice within the Public Service by strengthening HR management practices and inter-departmental exchanges; and***
- ***implementing information management and information technology solutions that support progressive recruiting, including the future use of e-recruiting.***

Recommendation 32. Move Quickly to Adopt and Apply Bill C-25

If and when approved, Defence should move quickly to adopt and apply the changes contained in Bill C-25. It should exploit the flexibilities and opportunities that will accompany HR modernization in order to support efforts to fundamentally re-engineer civilian human resource management across the Department and the Canadian Forces. The recent creation of an office to implement Bill C-25 and human resource modernization within National Defence, and the appointment of a Director Genera-level executive to lead implementation, is strongly endorsed.

a. Defence should, as part of these efforts, pursue a program to reform and renew the Human Resources – Civilian Group that acknowledges the requirement for a competent and professional in-sourced human resource function in keeping with the objectives of Bill C-25 and broader federal efforts to modernize human resource management. To this end, the Department should:

- ***develop an improved management and accountability framework for the management of civilian human resources in Defence, consistent with Bill C-25 and federal human resource modernization efforts;***
- ***articulate the authorities, accountabilities and responsibilities for civilian human resource management for civilian and military managers, employees and the human resources community, at all levels, in Defence Administrative Orders and Directives, and, as part of this accountability framework, include any revisions that may be required to update the role and mandate of the National Defence Union-Management Consultation Committee;***
- ***build on work already underway to increase the delegation of authorities within this revised framework, so that managers hold***

increased delegation, and 'control' is exercised through improved monitoring, reporting and post-transaction audit; and

- ***focus the Human Resources – Civilian Group on core functions, including policy and planning, client services and corporate programs, labour-management relations, and monitoring, audit, evaluation, and reporting.***

b. ***The Committee further recommends that a strong central role for the ADM (Human Resources – Civilian) be articulated and communicated within the Department and the Canadian Forces. While the Committee believes that certain aspects of HR Service Delivery could be decentralized, the Committee concluded that a strong central approach will be required to spearhead a comprehensive re-engineering effort, particularly during the initial three to five year period. To this end, and at a minimum, the core accountabilities of the ADM (Human Resources – Civilian) should be to:***

- ***provide corporate oversight of the health of DND's civilian workforce;***
- ***oversee the design and functioning of the restructured services delivery network;***
- ***set standards for service delivery;***
- ***prescribe human resource reporting requirements;***
- ***conduct post-facto compliance audits;***
- ***oversee the professional development and training of the human resource community; and***
- ***sign-off on senior civilian HR Managers' Performance Evaluations down to the Director/Colonel level, in instances where these managers do not have a direct reporting relationship within the Human Resources – Civilian Group.***

Recommendation 33. Re-Engineer Civilian HR Processes

The Department should move much more aggressively to re-engineer and automate its organization, classification, and staffing processes.

As part of these efforts, the Department should:

a. ***make greater use of standardized work descriptions, delegation of authorities, e-tools, and automated work flows to streamline and simplify the forms, paper-work and information management requirements of the hiring process, from end-to-end;***

b. ***work with functional communities and HR Client Service Officers to build on existing initiatives (such as Quick-Serve) and efforts to populate an e-database of classified work descriptions;***

c. ***maximize the delegation of authority to managers to create positions and to initiate staffing;***

d. ***rationalize classification and staffing forms into a single, integrated e-form, and automate the classification/staffing process from the desktop to the creation and posting of job posters;***

- e. ***use e-screening tools to facilitate the more rapid processing of applications;***
- f. ***use new technology applications to maintain records of university and professional qualifications for individual employees;***
- g. ***explore the use of better risk management practices to help reduce candidate clearance times;***
- h. ***remove disincentives to managers wishing to staff positions with indeterminate employees (as opposed to casuals/terms), including maximizing the stability and clarity of managers' multi-year operating budgets, so as to give greater certainty to these budgets for civilian salary and other personnel costs;***
- i. ***set aggressive benchmarks for performance management of end-to-end hiring processes (i.e., classification, staffing, language testing, security clearances); and***
- j. ***increase the ratio of HR Client Service Officers ('generalists') to employees to improve service capacity.***

Recommendation 34. Implement a New Service Model

The Committee recommends moving as quickly as possible toward a service model where managers and employees can access human resource services on-line, through a National Call Centre, or through their local human resources advisor, as required, depending on the complexity of the need. In implementing this model, managers and employees should be encouraged to maximize the use of self-service e-tools and the proposed Call Centre for more simple transactions, and save face-to-face personal service from human resource advisors for help in resolving more complex, higher value-added challenges.

Recommendation 35. Embrace E-Solutions

The Department should move much more aggressively to implement e-solutions to meet its HR management challenges, particularly in the area of hiring and the elimination and/or reduction of standard, paper-based process.

As part of these efforts, the Department should:

- a. ***consolidate and automate forms, work flows, and processes in areas such as hiring, leave, overtime, and pay and compensation;***
- b. ***maximize the availability and accessibility of on-line human resource information and services, with emphasis on maximizing self-service tools;***
- c. ***continue to install kiosks to serve areas with limited access to the National Defence Intranet and/or personal computers;***
- d. ***move forward more aggressively into e-recruiting and the e-screening of job applicants;***
- e. ***automate systems for processes and decision support; and***
- f. ***consider a Web-enabled 'National Call Centre' to support delivery of advice and information on corporate HR programs to managers, employees and the broader human resources community.***

Recommendation 36. Rationalize and Consolidate HR Service Delivery Networks

Defence should rationalize and consolidate its advisory and service delivery network and:

- ***a.*** ***transform the civilian HR community based on a stronger advisory, service-oriented culture that supports increased delegation of authority to managers and increased professional development among employees;***
- ***b.*** ***restructure the corporate human resource service delivery network to deliver human resource services to Level Ones through 'generalist' Client Service Account Officers;***
- ***c.*** ***build the 'generalist' Client Service Account Officers through the consolidation, rationalization and integration of the existing HR Business Manager and Human Resource Service Centre Networks; and***
- ***d.*** ***through this process, strengthen the capacity of the 'generalist' Client Service Account Officer system as part of the new management framework for civilian HR management.***

Recommendation 37. Re-establish Joint Management of HR in Selected Areas

The Department should consolidate and establish joint management and administration among the two Human Resource Management Groups in areas where the ADM (Human Resources - Civilian) and the ADM (Human Resources - Military) could share common services, functions and related programs. Further, the managers of the proposed shared/common units should have dual reporting, and report to both ADM (Human Resources – Military) and ADM (Human Resources - Civilian).

- ***a.*** ***The shared services and functions that should be considered include:***
  - ***human resource research and analysis;***
  - ***internal surveys;***
  - ***business planning;***
  - ***comptrollership and financial administration;***
  - ***information management and information technology; and***
  - ***departmental corporate reporting.***
- ***b.*** ***The common program areas that should be considered for continued and/or expanded collaboration include:***
  - ***the Defence Learning Network;***
  - ***learning and professional development, particularly in the area of management development;***
  - ***employment equity and diversity;***
  - ***workplace well-being;***
  - ***official languages; and***
  - ***member/employee queries and the management of the proposed National Call Centre.***

Recommendation 38. Strengthen HR Training

The Department should adopt an aggressive, proactive approach to support implementation of the proposed new human resource management regime through

enhanced HR training – supported by change management and internal communications – in order to build civilian HR management capacity across the institution. Implementation of this initiative should include efforts to maximize efficiency in the delivery of training.

To this end, the Department should:

a. ***increase the training and development of human resource 'generalist' advisors, and specifically strengthen the institution's advisory capacity in certain areas, including classification, change management, and organizational development;***

b. ***make training on civilian human resource management mandatory for supervisors and front-line managers on appointment to a supervisory-level position;***

c. ***increase the use of training resources available to the Public Service outside of DND (e.g., through the new Canada School of Public Service envisaged by Bill C-25), particularly in the area of management development;***

d. ***embed the required civilian human resource training into departmental and Canadian Forces training programs and systems;***

e. ***make the Assistant Deputy Minister (Human Resources - Civilian) accountable and responsible for setting standards and overseeing the content of training programs;***

f. ***establish a standard for software development for e-learning;***

g. ***encourage the institution as a whole to migrate as quickly as possible to the Defence Learning Network (once proven) as the core DND and CF learning platform;***

h. ***maximize collaboration between the military and civilian Human Resources Groups on learning and professional development, particularly in the area of management development; and***

i. ***develop a comprehensive and proactive communications and change management plan to manage the transition to the new human resource management framework.***

Recommendation 39. Contracted Professional Services

The Department of National Defence and the Canadian Forces are clearly making inefficient use of professional service contracts in a number of areas. Some improvements are underway but the Committee believes that more can be done and that significant savings can be found.

The Committee recommends that:

a. ***a fundamental review of contracting practices should be undertaken as a priority and a business case methodology should be applied to all contracted professional services;***

b. ***every capital project should have a plan to transfer knowledge from contractors as early as possible;***

c. ***the civilian staffing process must be improved to facilitate hiring of public servants in a timely manner and eliminate the need to fill positions with more expensive contractors; (See Section 1)***

d. ***the feasibility and cost effectiveness of re-establishing an internal management consulting service within the Department of National Defence should be examined to complete many of the short-term projects presently being done by contractors;***

e. ***legislative restrictions that exclude military personnel from competing in closed competitions within the Public Service should be amended to make current military members or retirees eligible to compete in closed Public Service competitions;***

f. ***senior managers should be provided with improved visibility on the use and cost of professional services contracts and an appropriate transparency level should be included in Business Plans, including the extent to which contractors will be used and the associated rationale;***

g. ***periodic resource management reports should include visibility as to the number and value of professional services contracts;***

h. ***the Department must insist upon clearly defined deliverables for professional services and ensure that value for money is being received against contracted services;***

i. ***within NDHQ, better use should be made of shared support services for temporary help requirements; and***

j. ***priority should be given to replacing contractors with public servants where practical and cost-effective and, in particular, where there is a developing risk of an employer-employee relationship.***

Recommendation 40. Health Services

The Minister may wish to consult with his colleagues, including the President of the Treasury Board, the Minister of Finance and the Minister of Health, to determine whether the issue of the Employer Health Tax should be pursued with the four provincial governments. The Committee recognizes that the elimination of the payroll tax applied by certain provinces will not result in direct savings to the Department. This issue is, arguably, beyond the Committee's specific mandate, but the Committee has noted the inconsistency between the requirement to pay this tax and the exclusion of military members under the **Canada Health Act.** ***The employer payroll tax represents an expenditure of federal tax dollars for which the Government of Canada receives no apparent benefit.***

Recommendation 41. Independent Oversight Bodies

The Committee recommends that complaints resolution and oversight organizations be rationalized. A certain level of expenditure on complaints resolution and oversight is a necessary requirement in the operation of a large public sector organization such as Defence, however, the current organization of oversight bodies is inherently inefficient. In particular, the Committee recommends that:

- ***a.*** ***consideration be given to an integrated complaints resolution organization (excluding the Ombudsman) to deal with all formal complaints;***
- ***b.*** ***a target reduction of 30-50 percent of current resource levels assigned to the grievance process be set once the current backlog of outstanding grievances is cleared;***
- ***c.*** ***the integration of the Military Police Complaints Commission with the RCMP Complaints Commission be pursued and current resource levels be reduced by a target of up to 30 percent; and***
- ***d.*** ***the mandate of the Minister's Monitoring Committee on Change not be renewed and resources that might have been assigned to it in the future be re-allocated to higher priority activities.***

Recommendation 42. Travel

The Committee has noted the significant rate of growth in Defence travel expenditures and believes that, in addition to the internal controls currently in place, more could be done to ensure that travel is kept at a reasonable level. The Committee estimates that, through greater use of technology for meetings and training and judicious control of discretionary travel, savings in the order of $24 million to $28 million are possible.

The Committee recommends that:

- ***a.*** ***the Chief of Review Service be directed to include an assessment of the potential to reduce discretionary travel as part of its related work plan;***
- ***b.*** ***e-learning and distance learning initiatives should be vigorously pursued in order to reduce training related costs, including travel;***
- ***c.*** ***the availability and capabilities for teleconferencing and videoconferencing should be actively promoted as a viable alternative to travel; and***
- ***d.*** ***a target cost reduction of fifteen percent of locally authorized and international travel should be established.***

Recommendation 43. Military Pay Services

The Committee recommends that the Department continue efforts to streamline the pay system and to examine options to outsource the Total Force system. As part of this effort, the Department should also:

- ***a.*** ***maintain National Procurement funding at current levels to permit the migration of the Revised Pay System for the Reserves to the Defence intranet;***
- ***b.*** ***integrate the Central Computation Pay System for the Regular Force and the Revised Pay System for the Reserves to one Total Force pay system; and***
- ***c.*** ***implement electronic distribution of pay statements and T-4 slips without delay.***

Recommendation 44. Military Human Resources

The Committee endorses the recommendations of the study completed in 2000 by Catano, Jackson and Brigadier-General (retired) MacNamara, entitled **Effective Human Resource Management in the Canadian Forces*****, and recommends:***

- ***a.*** ***the efficiencies and economies identified in the recommendations in the ADM(HR-Mil) baseline review be fully implemented;***
- ***b.*** ***to the maximum extent possible, ADM (HR-Mil) leverage initiatives recommended in this Report for ADM (HR-Civ), particularly with respect to the introduction of electronic-based solutions to replace paper-based processes; and***
- ***c.*** ***as a practical matter, the Department consider having a follow-up review of ADM (HR Mil) conducted early in the process of cyclical expenditure reviews.***

Recommendation 45. Real Property Management

The Committee believes that significant efficiencies are available in the area of real property management. Defence should undertake a detailed analysis of the delivery of real property management services. Key to the analysis should be a determination of the best method(s) for the Department to access private sector resources and capabilities and how to better use existing partnerships.

Given the decentralized nature of property management in Defence, this is a recommendation that lends itself to regional analysis/implementation. The Assistant Deputy Minister (Infrastructure and Environment) should continue to work with her counterparts in developing individual solutions that make sense for specific locations, facilities and operational properties.

Recommendation 46. Real Property Rationalization and Disposal

The Committee noted that it was to the advantage of Level One organizations to pursue an aggressive realty rationalization target. The Assistant Deputy Minister (Infrastructure and Environment) should continue to work with those Level One

managers that are real property custodians to dispose of excess holdings. A formal departmental level disposal plan for strategic property, including a forecast of disposal revenues, should be developed based on those plans. The investment of these revenues should form part of the annual development of the Strategic Capabilities Investment Plan.

The Assistant Deputy Minister (Infrastructure and Environment) and the Department should also actively continue to develop the early transfer option through consultation with appropriate Level One managers and necessary government departments, and by selection of a pilot site from those sites currently awaiting disposal.

Recommendation 47. Sharing Facilities

The Department should actively pursue opportunities for shared and multiple use of existing and new facilities, with appropriate potential partners, particularly other government departments. This can be achieved in partnership with Public Works and Government Services Canada.

Recommendation 48. Energy Efficiencies Resource Centre

Defence, led by the Assistant Deputy Minister (Infrastructure and Environment), should actively continue to pursue energy efficiencies and enhance utilities management. In view of the current deregulated utilities environment, ADM (IE) should take on a greater role in this area by assisting Level One managers in identifying opportunities within geographic regions. This might be accomplished, in part, by establishing a Resource Centre to develop expertise in this area and to provide information and support to Managers responsible for managing utilities.

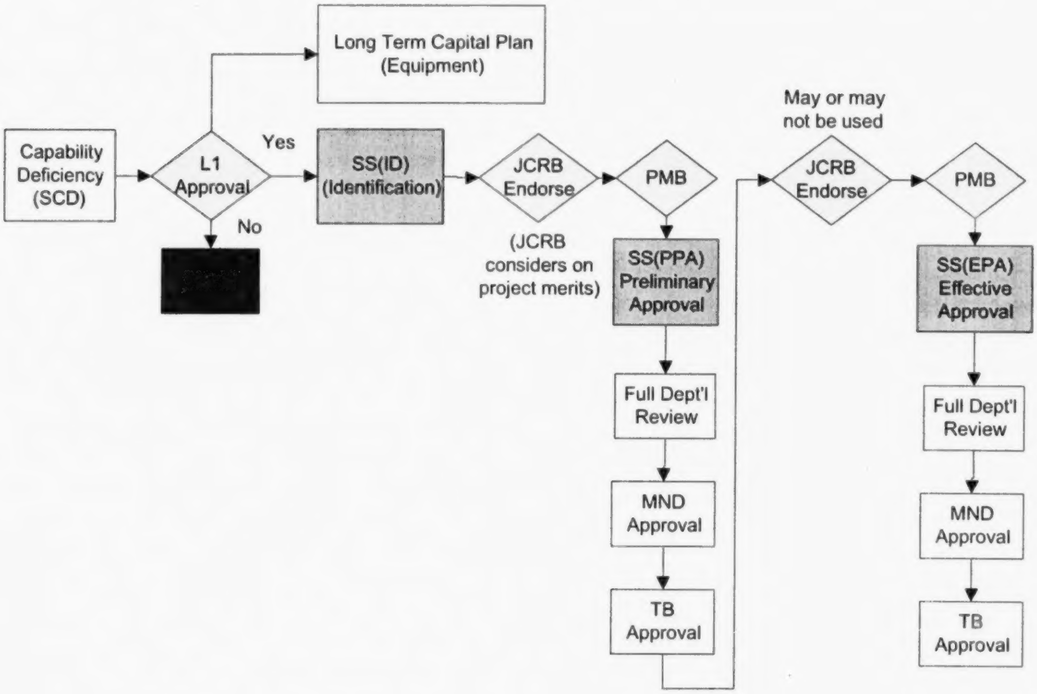
Recommendation 49. Establishing Administrative Efficiency Cells

The Committee recommends that the process of drawing on suggestions from the workforce to improve administrative efficiency be continued throughout DND both locally and at higher HQs, acknowledging that transformation is an on-going process. Every organization needs to look at the way it does business on a constant basis. Establishing administrative efficiency cells at units, Bases, and Wings and throughout the Department is one option. Results could be seen immediately for local issues and the chain of command would be appraised of every recommendation made by its staff. For suggestions affecting national policy changes, the chain of command could in all likelihood process the suggestions to appropriate Level One and/or to higher Departmental authorities for further action.

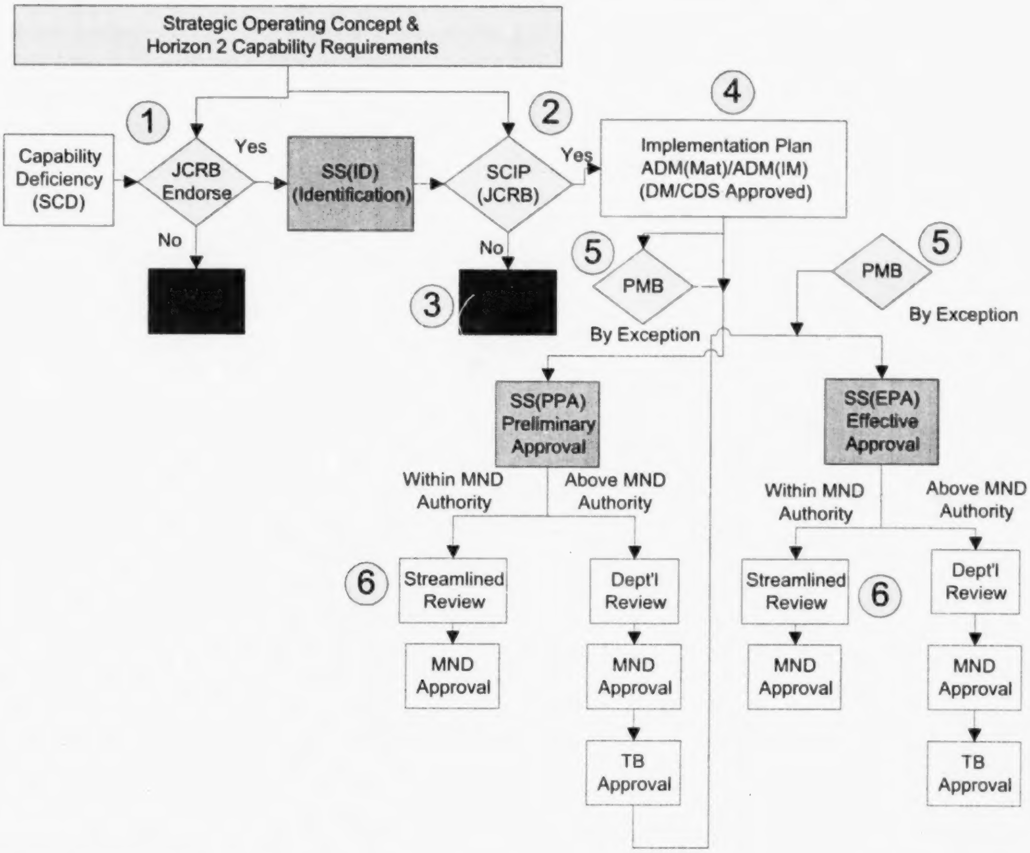
Annex A / Appendix 1 - The Capital Project Approval Process

Noting that the current capital approval process is often slow, resource intensive and characterized by a 'one size fits all' approach, the Committee proposes, as a possible solution, a revised process for approving capital equipment projects in order to address the inefficiencies with the existing process.

The following diagram depicts, in general terms, the existing approval process:


Long Term Capital Plan (Equipment)
Capability Deficiency (SCD)
L1 Approval
Yes
No
SS(ID) (Identification)
JCRB Endorse
(JCRB considers on project merits)
PMB
SS(PPA) Preliminary Approval
Full Dept'l Review
MND Approval
TB Approval
May or may not be used
JCRB Endorse
PMB
SS(EPA) Effective Approval
Full Dept'l Review
MND Approval
TB Approval

The following diagram depicts a possible approval process that improves on the existing model through streamlined review and a more differentiated approach:


Strategic Operating Concept &
Horizon 2 Capability Requirements
1
Capability Deficiency (SCD)
JCRB Endorse
Yes
No
SS(ID) (Identification)
2
SCIP (JCRB)
Yes
No
3
4
Implementation Plan
ADM(Mat)/ADM(IM)
(DM/CDS Approved)
5
PMB
By Exception
5
PMB
By Exception
SS(PPA) Preliminary Approval
Within MND Authority
Above MND Authority
6
Streamlined Review
MND Approval
Dept'l Review
MND Approval
TB Approval
SS(EPA) Effective Approval
Within MND Authority
Above MND Authority
Streamlined Review
6
MND Approval
Dept'l Review
MND Approval
TB Approval

Explanatory Notes:

① Joint Capability Requirements Board (JCRB) endorsement of the Statement of Capability Deficiency (SCD) must be a prerequisite for further approvals and would result in the early melding of similar deficiencies and projects across military environments and operating domains. This would provide the first opportunity for corporate prioritization and integration.

A time limit (one to two years maximum is suggested) would be imposed from the time of identification of the capability deficiency to consideration of the resulting project for inclusion in the Strategic Capabilities Investment Plan (SCIP). While highly complex acquisitions may require extensions to this target timeline, this is assessed as being reasonable to complete the development of the Statement of Requirement, initiate the options analysis process and identify the indicative costs. Refinements to this initial work will be considered during the annual review of the Plan and accordingly, streamlined

Annex A / Appendix 1 - The Capital Project Approval Process

Noting that the current capital approval process is often slow, resource intensive and characterized by a 'one size fits all' approach, the Committee proposes, as a possible solution, a revised process for approving capital equipment projects in order to address the inefficiencies with the existing process.

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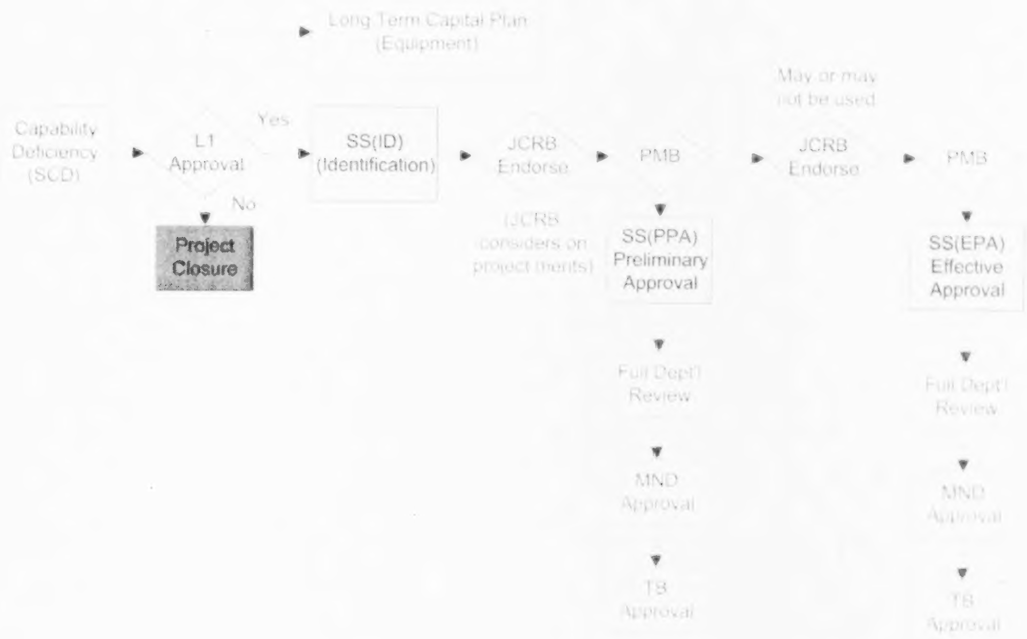
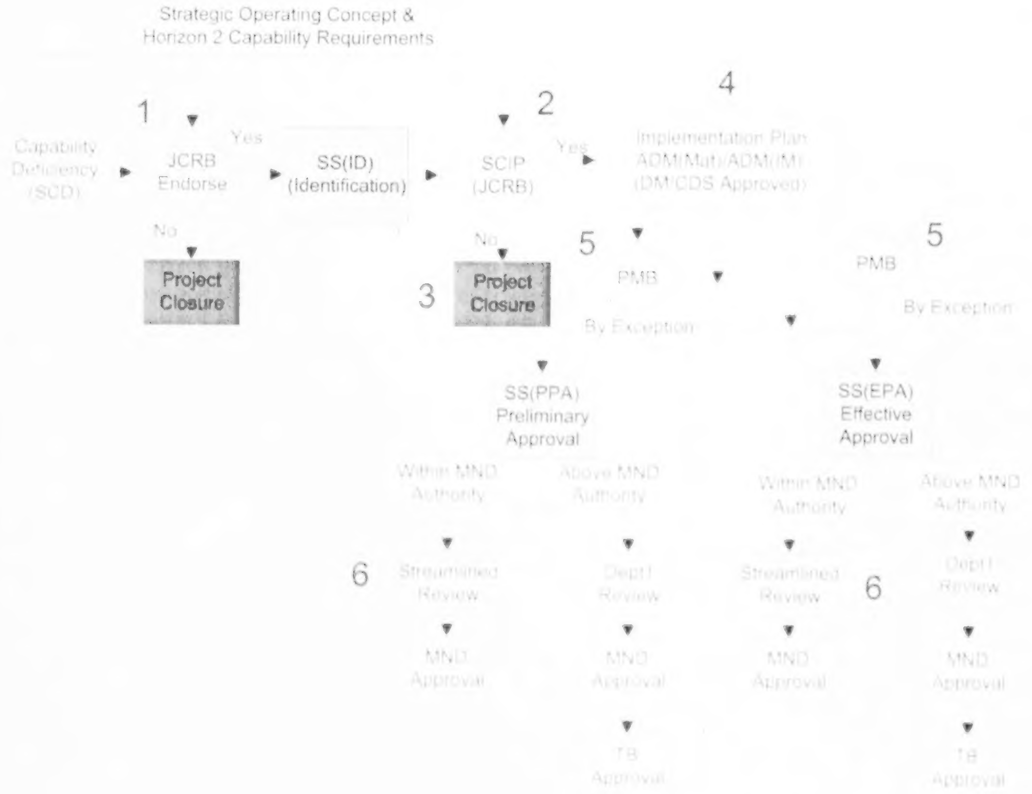

Long Term Capital Plan (Equipment)
May or may not be used
Capability Deficiency (SCD)
L1 Approval
Yes
No
Project Closure
SS(ID) (Identification)
JCRB Endorse
(JCRB considers on project merits)
PMB
SS(PPA) Preliminary Approval
Full Dept'l Review
MND Approval
TB Approval
JCRB Endorse
PMB
SS(EPA) Effective Approval
Full Dept'l Review
MND Approval
TB Approval

The following diagram depicts a possible approval process that improves on the existing model through streamlined review and a more differentiated approach:


Strategic Operating Concept & Horizon 2 Capability Requirements
1
2
4
Capability Deficiency (SCD)
JCRB Endorse
Yes
No
SS(ID) (Identification)
SCIP (JCRB)
Yes
No
Implementation Plan ADM(Mat)/ADM(IM) (DM/CDS Approved)
Project Closure
3
Project Closure
5
PMB
By Exception
5
PMB
By Exception
SS(PPA) Preliminary Approval
SS(EPA) Effective Approval
Within MND Authority
Above MND Authority
Within MND Authority
Above MND Authority
6
Streamlined Review
Dept'l Review
Streamlined Review
6
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MND Approval
MND Approval
MND Approval
MND Approval
TB Approval
TB Approval

Explanatory Notes:

1

Joint Capability Requirements Board (JCRB) endorsement of the Statement of Capability Deficiency (SCD) must be a prerequisite for further approvals and would result in the early melding of similar deficiencies and projects across military environments and operating domains. This would provide the first opportunity for corporate prioritization and integration.

A time limit (one to two years maximum is suggested) would be imposed from the time of identification of the capability deficiency to consideration of the resulting project for inclusion in the Strategic Capabilities Investment Plan (SCIP). While highly complex acquisitions may require extensions to this target timeline, this is assessed as being reasonable to complete the development of the Statement of Requirement, initiate the options analysis process and identify the indicative costs. Refinements to this initial work will be considered during the annual review of the Plan and accordingly, streamlined processes at this stage need not restrict the project's proposed solution to the capability deficiency.

② The JCRB must annually approve a SCIP (with its component elements of equipment, infrastructure, information management, human resources, and research and development) that is achievable and affordable and, in so doing, reduce the level to which management commits more funds than are allocated (over-programming) to manageable levels.

③ Projects considered by JCRB but not accepted for inclusion into the annually updated Plan (on the basis of priority, insufficient available resources, etc), would cease entirely, barring specific JCRB approval to extend.

Project Leaders would be expected to use Senior Review Boards (SRBs) to provide a more rigorous review of projects than is currently the case for some projects. This would likely require SRB attendance at more senior levels and by officials who could offer sound recommendations and advice. It would also require SRB members to adopt a wider, programmatic view of the key issues.

Projects would be required to justify when off-the-shelf solutions, whether military, commercial or government are *not* adopted, and provide the rationale and identification of incremental costs associated with any additional customization.

Project implementation plans, risk assessments and in-service support estimates must be developed and maintained. To this end, the Department would use the current Capabilities Initiative Database as the approved system of record, available for senior management review. This would facilitate greater use of phased projects and better identification of potential project exit points.

The annually updated SCIP should be viewed as the campaign plan to achieve the required capabilities, identified in the CF strategic operating concept and supporting documents. As stated above, the Plan will evolve as its component elements reach various stages of maturation.

④ On an annual basis, and as part of the existing resource allocation process, the Assistant Deputy Minister (Materiel) and the Assistant Deputy Minister (Information Management) would be required to produce a two-year rolling implementation plan that identifies, project by project, all planned expenditures during that period. This plan must be in line with the SCIP and with the planning allocations to capital (the 'notional' allocations). To be more effective for planning purposes, the notional allocations should reflect the expected funding levels. This plan must also be achievable in terms of available personnel resources and should form an element of senior management performance agreements.

⑤ The Assistant Deputy Minister (Materiel) and the Assistant Deputy Minister (Information Management) should be responsible for executing the implementation plan and should only need to seek Program Management Board (PMB) approval of specific projects on an exceptional basis (for example, in cases of cost over-runs, significant changes in cash phasing, etc) and only after SRB consideration. If required, and in line with the proposed 'management by exception' approach to be adopted by the PMB, approval for such changes should be sought on a quarterly basis.

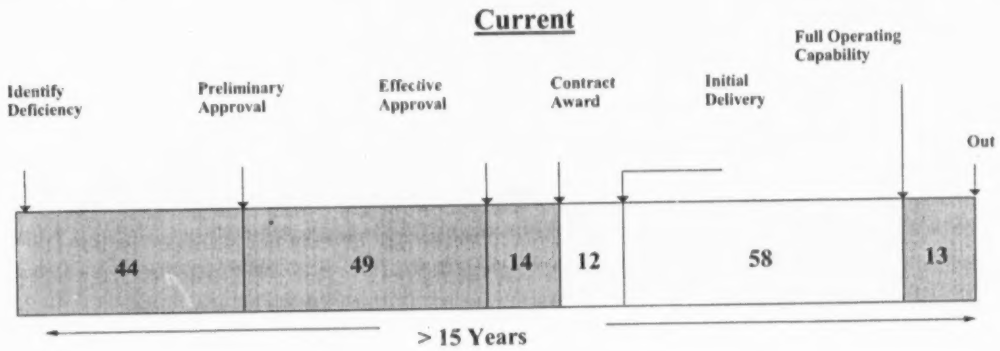
⑥ For projects within Ministerial authority, the existing departmental review would require only the signatures of the sponsor (as the initiator), the Assistant Deputy Minister (Materiel) or the Assistant Deputy Minister (Information Management) (when not the sponsor), the Vice Chief of Defence Staff (to ensure conformance with capability requirements), the Assistant Deputy Minister (Finance and Corporate Services) (as the Senior Financial Officer) and the Deputy Minister.

The existing review by the Directorate of Management Policy Development would only be required for those projects that required Treasury Board approval and this review would be streamlined to reduce existing delays.

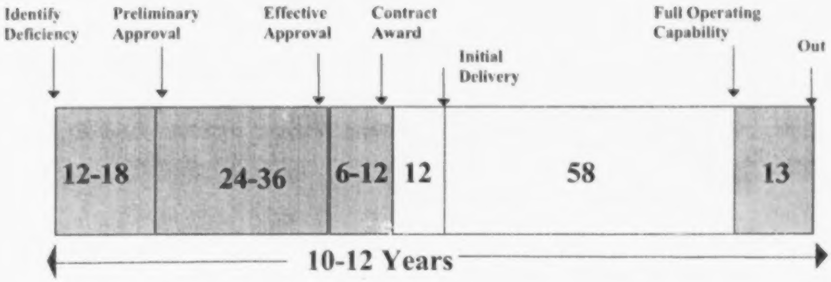
In order to increase visibility of staffing times, PMB should be informed quarterly as to the status of each file seeking approval, (Preliminary Project Approval, Effective Project Approval), noting the time spent at each approval step.

Timelines.

The following diagrams portrays the current average timelines, as depicted in months and drawn from the Department's 2002-2003 *Capital Acquisition Performance Report* and the timelines envisaged in the proposed way ahead (Green depicts DND actions, Yellow PWGSC actions and Blue those areas in which both departments are heavily engaged):



Proposed



The following advantages are foreseen through the adoption of this proposal:

a. The adoption of a departmentally approved understanding of specific capability needs will serve to provide 'top down' guidance to discipline and shape the process. Currently, rather than proposing solutions to identified and prioritized capability requirements, the 'bottom up' approach often operates without sufficient strategic guidance, which can result in projects being approved that do not necessarily meet departmental priorities.

b. Early involvement of JCRB in the endorsement of Statements of Capability Deficiency and the development of the SCIP is expected to lead to greater collaboration between the three environments in addressing similar deficiencies and to the closure of unapproved projects, thereby focusing resources on high priority activities. This early involvement of the Board will also serve to reduce the existing planning stovepipes that result from environmentally (Navy, Army, Air Force) or functionally based interests.

c. Deadlines assigned to requirement identification should significantly reduce the current 44 months required for this activity. It is assessed that, barring exceptional circumstances accepted by the JCRB, this work could be completed within 12-24 months. This would also entail a clearer focus on identifying the capability deficiency and less effort in the early stages of the process of designing the ideal solution.

d. Where supported by a cost-benefit analysis, increased use of military /commercial /government off-the-shelf solutions and the elimination of unnecessary customization will reduce the time and resources required for the approval process. It will also reduce the time required to procure capital equipment, and reduce both initial, and potential downstream, costs. Downstream cost reductions are likely to be particularly important in circumstances wherein the acquired equipment is expected to require, at some later date, modification or life extension. This increased willingness to consider off-the-shelf solutions is linked with both a cultural shift that moves away from the '100 percent solution' paradigm and a greater willingness to engage with industry and Allies early in the capability identification process. In a number of instances, the Department has already demonstrated that it is fully capable of making these changes.

e. Through the development and execution of a two-year rolling implementation plan, the Assistant Deputy Minister (Materiel) will be largely able to eliminate the current requirement to seek PMB approval for all projects, bringing forward only those that deviate from the approved plan. This plan also provides the basis for performance measurement and increased accountability for the Assistant Deputy Minister (Materiel).

f. The focus of the PMB would be shifted to management by exception, enabling it to meet less frequently (reducing senior management commitments to meetings) and with greater focus.

g. Streamlining internal approval processes, particularly for Ministerial approved projects, would reduce the current, unnecessary delays. The reporting of project approval status would provide visibility to delays, enabling senior management to take corrective action. It is forecast that the current documents staffing process, now measured in several months, could be reduced to less than a month.

Annex B: Officials Interviewed by the Committee

The Committee consulted individually, or as a group, with the following individuals:

The Honourable John McCallum, Minister National Defence
The Honourable Ralph Goodale, Minister Public Works Government Services

National Defence

General R.R. Hénault, Chief of the Defence Staff
Mrs. M. Bloodworth, Deputy Minister
Ms. M. Purdy, Associate Deputy Minister
Mr. A. Marin, CF Ombudsman
Ms. L. Cobetto, Chairperson, Military Police Complaints Commission
Lieutenant-General G. MacDonald, Vice Chief of the Defence Staff
Vice-Admiral G.R. Maddison, Deputy Chief of the Defence Staff
Vice-Admiral R. Buck, Chief of the Maritime Staff
Lieutenant-General M.K. Jeffery, Chief of the Land Staff
Lieutenant-General L.C. Campbell, Chief of the Air Staff
Lieutenant-General C. Couture, Assistant Deputy Minister (HR-Military)
Mr. H.C. Dickson, Assistant Deputy Minister (Information Management)
Mrs. S. Siegel, Assistant Deputy Minister (HR-Civilian)
Mr. R.M. Emond, Assistant Deputy Minister (Finance & Corporate Services)
Mr G. Rioux, Assistant Deputy Minister (Public Affairs)
Ms. K. Ellis, Assistant Deputy Minister (Infrastructure & Environment)
Major-General K. Penney, (former) Chief Review Services (CRS)
Dr. K. Calder, Assistant Deputy Minister (Policy)
Mr. A. Williams, Assistant Deputy Minister (Materiel)
Major-General D.L. Dempster, Director General Strategic Planning
Major-General T.M. Hearn, Acting ADM (Fin CS)
Mr. J. Van Adel, Director General Review Services (and now current CRS)
Rear-Admiral F.W. Gibson, Chief of Staff (Information Management Group)
Mr. K. Ready, Chief of Staff (Materiel Group)
Ms. C. Jolicoeur, Chief of Staff (HR-Civilian Group)
Mr. R. Sullivan, HR-Civilian Group, Head, DND Modernization Legislation Implementation Team
Ms. F. Miron, Director General Civilian Employment Strategies and Programs
Ms. C. Read, Director General Regional Civilian Human Resource Services
Brigadier-General S.M. Irwin, Director General Military Engineering
Mr. R. Westland, Director General Realty Policy and Plans
Ms. J. Hallée, Deputy Director Access to Information and Privacy
Major-General A.B. Leslie – former Commander Land Forces Central Area
Colonel G. Thibault, Base Commander, CFB Kingston
Mr. D. Carlisle, Special Assistant – Procurement, Office of the Minister
DND Union Management Consultation Committee

Public Works Government Services Canada

Ms. J. Cochrane,	former Deputy Minister, Public Works Government Services Canada
Mr. D. Marshall,	Deputy Minister, Public Works Government Services Canada
Mr. D. Ross,	Associate Assistant Deputy Minister, Operations Branch, Public Works Government Services Canada
Mr. T. Williston,	Director General PWGSC Services for DND, Public Works Government Services Canada
Ms. A. Nicholls,	Acting Director Real Property Operations, Public Works Government Services Canada
Mr. A. Carboni,	Director Security and Information Systems, Public Works Government Services Canada
Mr. M. Burns,	Senior Adviser, Office of the Minister, Public Works Government Services Canada

Other Departments/Agencies

Mr. J. Judd,	Secretary of the Treasury Board & Comptroller General of Canada
Ms. J. Cochran,	Treasury Board of Canada, Secretariat - Procurement and Project Management Policy Directorate
Mr. R. Raphael,	Executive Director, Treasury Board of Canada, Secretariat - Public Works and Government Services Canada

Ms. S. Fraser,	Auditor General of Canada
Mr. H. McRoberts,	Assistant Auditor General, Office of the Auditor General of Canada
Mr. P. Kasurak,	Principal - Solicitor General, Office of the Auditor General of Canada
Ms. W. Loschiuk,	Principal - Defence, Office of the Auditor General of Canada

Lieutenant-General (Retired) P. O'Donnell,	President, Canadian Defence Industries Association
Mr. P. Lagueux,	Vice President – Policy, Canadian Defence Industries Association

Brigadier General Peter Cameron – Co-Chair, Reserves 2000

The Committee's Secretariat also consulted with various staffs of the officials listed above, in conducting the research for this Report.

Annex C: Reports and Documents Reviewed by the Committee

The following provides a selected bibliography of key reports and studies used by the Committee and members of the Secretariat to inform their analysis.

The bibliography is organized into four sub-sections:

- Parliamentary and Government Publications;
- Departmental/Agency Reports and Documents;
- Internal Defence Reports; and
- External Studies, Articles and Research Papers.

Parliamentary and Government Publications

Government of Canada. *Bill C-25 - An Act to Modernize Employment and Labour Relations in the Public Service and to Amend the Financial Administration Act and the Canadian Centre for Management Development Act and to Make Consequential Amendments to other Acts.* Ottawa, Canada, 2003.

Government of Canada. *1994 White Paper on Defence*. Ottawa, Canada, 1994.

Government of Canada. *National Defence Act (R.S. 1985, c. N-5).*

Parliament *of Canada.* Report of the Standing Committee on National Defence and Veterans Affairs on Procurement. *Ottawa, 2000.*

Glassco Commission. *Report of the Royal Commission on Government Organization.* Queen's Printer, 1962-1963.

Departmental/Agency Publications

Chief of the Defence Staff. *A Time For Transformation: Annual Report of the Chief of the Defence Staff, 2002-2003.* Department of National Defence, Ottawa, Canada, 2003.

Department of National Defence. *Report on Plans and Priorities (RPP) 2003-2004* Ottawa, Canada, 2003.

Department of National Defence. *Defence Plan On-line.* Ottawa, Canada, 2003.

Department of National Defence. *Policy on Alternmative Service Delivery.* Ottawa, Canada, 2003.

Department of National Defence. *HR Strategy: Horizon One - Facing the People Challenges of the Future for the Civilian Workforce.* Ottawa, Canada, 2002.

Department of National Defence. *Departmental Performance Report 2001-2002.* Ottawa, Canada, 2002.

Department of National Defence. *Military Police Complaints Commission Annual Report 2002 - Meeting The Challenge Of Change.* Ottawa, Canada, 2002.

Department of National Defence. *Defence Management System Manual.* Ottawa, Canada, 2002.

Department *of National Defence.* Defence Information Management Strategy, 2000. Ottawa, Canada, 2000.

Department of National Defence. Shaping the Future of the Canadian Forces : A Strategy for 2020. *Ottawa, Canada 1999.*

Department of National Defence. *Organization And Accountability: Guidance For Members Of The Canadian Forces and Employees Of The Department Of National Defence (Second edition).* Ottawa, Canada, September 1999.

Ombudsman of the Canadian Forces. Fair Treatment, Positive Change: Ombudsman Annual Report 2002-2003. *Office of the Ombudsman,Ottawa, 2003*

Public Works and Government Services Canada, *Supply Policy Manual.*

Treasury Board Secretariat of Canada. *Policy on Alternative Service Delivery,* Ottawa, April 2002.

Treasury Board Secretariat of Canada. *Government Contracting Policy.* Ottawa, 2003.

Treasury Board Secretariat of Canada. *Results for Canadians: A Management Framework for the Government of Canada,* March 2000.

Internal Defence Reports and Documents

Assistant Deputy Minister (Human Resources - Military). *Military Human Resources Strategy 2020.* Department of National Defence, Ottawa, Canada, 2002.

Assistant Deputy Minister (Materiel). *Capital Acquisition Performance Report – 2002.* Department of National Defence, Ottawa, Canada, 2002.

Catano, Jackson, and MacNamara. *Effective Human Resource Management in the Canadian Forces*. Department of National Defence, Ottawa, Canada, 2000.

Chief of the Defence Staff and Deputy Minister. "Future Directions for Information Management in DND/CF" in *IM Forum*, 8 May, Ottawa, Canada, 2002.

Chief of Review Services. *Review of Payments In Lieu of Taxes.* Department of National Defence, Ottawa, Canada, March, 2002.

Chief of Review Services. *Audit of Contracting for Professional and Technical Services.* Department of National Defence, Ottawa, Canada, November, 2001.

Chief of Review Services. *Review of the Integrated Relocation Pilot Program.* , Department of National Defence, Ottawa, Canada, November, 2001

Chief of Review Services. *NDHQ 99: Review of Restructuring and Re-engineering Volume 1 - Executive Overview.* Department of National Defence, Ottawa, Canada, 2001.

Chief of Review Services. *Repair and Overhaul DGA Survey of DND Inventories Held by Contractors and Summary of Industry Inventory Management Practices (7053-17-5 (DGA).* Department of National Defence, Ottawa, Canada, 1996.

Chief of Review Services. *Detailed Report Management of Contracted Repair and Overhaul, December 1995, 7053-17 (DGA).* Department of National Defence, Ottawa, Canada, 1995.

KMPG Consulting. *Department of National Defence: Human Resources Management Capacity Check Assessment - Final Report.* Department of National Defence, Ottawa, Canada, July, 2001.

Vice Chief of the Defence Staff. *Capabilities Initiatives Database*, available on the Defence Information Network. Department of National Defence, Ottawa, Canada, 2003.

Vice Chief of the Defence Staff. *Strategic Capability Planning for the Canadian Forces,* Department of National Defence, Ottawa, Canada, 2002.

Vice Chief of the Defence Staff. *Mutabilis in Mobili: Leading and Managing Strategic Change in DND and the CF.* Department of National Defence, Ottawa, Canada, 2002.

Vice Chief of the Defence Staff. *The Management, Command and Control Re-Engineering Team (MCCRT): Historical Report.* Department of National Defence, Ottawa, Canada, June, 1997.

External Studies, Articles and Research Papers

Belcourt, Monica. *Making Government the Best Place to Work.* The Institute of Public Administration of Canada, New Directions - #8, Toronto, 2002.

Bland, Douglas L. “Report of the Management Review Group”, *Canada's National Defence, Volume II: Defence Organization.* Queens' University School of Policy Studies, 1998.

Cowan, Farquhar, and MacBride-King. *Building Tomorrow's Public Service Today: Challenges and Solutions in Recruitment and Retention.* The Conference Board of Canada, Canada, 2002.

Kasurak, Peter. *Legislative Audit for National Defence: 'The Canadian Experience".* Queens' University School of Policy Studies, 2003.

MacDonald and MacDonald. "Knowledge Management: Measuring Success at the Strategic Level" in *Canadian Government Executive*, Issue 3, 2003.

Annex D: Report on Suggestions Received by the Committee

To encourage suggestions from CF members and DND employees, the Minister's Advisory Committee Secretariat established an Intranet site accessible via the Defence Information Network national portal. An e-mail address was also established for personnel to forward their suggestions directly to the Committee's Secretariat. On April 9, 2003, an article was placed in the Maple Leaf welcoming suggestions and on April 15, 2003, a general message (CANFORGEN 057/03 CDS 043) was released providing guidelines for submitting suggestions for all DND employees and CF members until May 23, 2003. The Committee further extended the deadline for submitting suggestions until June 13, 2003.

Process For Tracking Individual Suggestions

All suggestions received were logged and tracked on a data base spreadsheet by the suggestion box coordinator. On behalf of the Committee, every suggestion proponent was provided with an initial response thanking him/her for his or her input.

Once initially assessed, the suggestions were routed to a Secretariat member for further analysis. If a suggestion fell within the Committee's mandate but required a more in-depth review, it was forwarded to appropriate Level One staffs for their assessment. If a suggestion was outside the Committee's mandate, it was either sent to the appropriate Level One staff or the Innovative Practices Exchange (IPE) / Continuous Improvement Working Group (CIWG) through the Director General Strategic Change (DGSC) for further analysis. The IPE and CIWG played a key role in helping in the assessment of suggestions sent forward on behalf of the Committee.

Recommendations that were put forward by interested Canadians from outside of Defence were brought to the attention of the Minister's Office.

Summaries of Suggestions Received

A total of 89 suggestions were submitted to the Committee. Of these, five suggestions were assessed as being outside the Committee's mandate, as they related to either force structure or military capabilities, and were consequently forwarded to the appropriate Level One staffs for their consideration. Another six suggestions were assessed as being appropriate for immediate consideration across NDHQ and therefore forwarded to the IPE / CIWG for further analysis. Three additional suggestions were assessed as being suitable for longer-term study, and were forwarded to the appropriate departmental authority.

The balance of the suggestions was examined in more detail by the Committee's Secretariat. This examination often involved research and analysis in consultation with Level One staffs. All of these suggestions helped to shape the Committee's perspective on potential areas where efficiency could be improved.

Themes Observed from the Suggestions

In line with the areas studied by the Committee, the suggestions that were examined in detail could also be grouped around six dominant themes. These are summarized in the following table:

Main Themes Observed from the Suggestions	
Governance	Reduce establishments and level of decision making
Procurement	Establish new programs (i.e., Acquisition, Best practices, etc.)
Information Management and Information Technology	Management of Software
Infrastructure	Usage of Office Space in the National Capital Region
Military HR Management	Pay/Claims, Compensation and Benefits, Performance Evaluation Reports, Grievances, Leave, Professional Services, Administrative Process
Civilian HR Management	Hiring Process and Awards

Conclusion

In closing, the Committee acknowledges and expresses its gratitude to each person that forwarded a suggestion. These contributions have been very helpful in delivering on the Committee's mandate. The Committee also thanks the staffs of the IPE and CIWG, all the Level One staffs and various managers that were asked to clarify issues. The Committee believes that Defence should continue to draw on the many good ideas of its workforce.

Recommendation 49. Establishing Administrative Efficiency Cells

The Committee recommends that the process of drawing on suggestions from the workforce to improve administrative efficiency be continued throughout Defence both locally and at higher HQs, acknowledging that transformation is an on-going process. Every organization needs to look at the way it does business on a constant basis. Establishing administrative efficiency cells at units, Bases, and Wings and throughout the Department is one option. Results could be seen immediately for local issues and the chain of command could be appraised of every recommendation made by its staff. For suggestions affecting national policy changes, the chain of command could in all likelihood process the suggestions to appropriate Level One and/or to higher departmental authorities for further action.

Annex E: Chronology of Key Events[1]

Date	*Event*
January 30, 2003	Minister announces appointment of the Advisory Committee on Administrative Efficiency
February 12	Maple Leaf Article "Formation of an Advisory Committee on Administrative Efficiency at DND"
February 17	Committee Meeting (Ottawa), Meetings with Minister, Deputy Minister and Vice Chief of Defence Staff
February 18	Committee Meeting (Ottawa), Meetings with Departmental Officials
March 4 & 5	Committee Meeting (Ottawa), Meetings with Departmental Officials
March 6	Action Directive on Support for the Advisory Committee by the Chief of Defence Staff and Deputy Minister, appointing a Secretariat to provide research, analysis, advice and support
March 26	Committee Briefing to the Department of National Defence & Canadian Forces Daily Executive Meeting (Ottawa)
April 8 & 9	Committee Meeting (Ottawa), Meetings with Departmental Officials, Minister of National Defence, Minister of Public Works and Government Services Canada
April 9	Maple Leaf Article "Efficiency Committee Welcomes Suggestions"
April 9	Advisory Committee Intranet site launched and Efficiency Suggestion "Mailbox" opens
April 15	General Message to Canadian Forces announcing Guidelines and Procedures for submitting suggestions to the Minister's Advisory Committee formation of Minister's Advisory Committee and the Email suggestion mechanism
April 15	Committee Meetings (Ottawa), Meetings with Departmental Officials and the Auditor General for Canada

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[1] The Committee members also conducted several meetings and consultations with various stakeholders to further their analysis and develop and/or refine their recommendations. T his chronology should not be considered a comprehensive listing of the Committee's activities.

May 15	Committee Meetings (Ottawa), Meetings with Departmental Officials and PWGSC Officials
May 21	Maple Leaf Article "Suggestion Deadline Extended"
May 27	Committee Meeting (Ottawa), Discussions with Minister of National Defence, Deputy Minister to provide progress report
June 13	Efficiency Mailbox closes
June 16	Committee Meeting (Teleconference)
July 10 & 11	Committee Meetings (Ottawa), Meetings with Departmental Officials and Consultation with Deputy Minister and Chief of Defence Staff
July 2	Committee Meeting (Teleconference)
July 24	Committee consultation with Deputy Minister of Public Works & Government Services Canada
July 29	Committee Meeting (Toronto) Meeting with Minister and Deputy Minister for final progress report
August 12	Committee Meeting (Ottawa)
August 14	Committee Chairman, Chief of Defence Staff (Teleconference) Discussion of Final Report
August 21, 2003	Committee's final report submitted to the Minister of National Defence

Annex F: Listing of Commonly Used Acronyms

- Assoc DM - Associate Deputy Minister
- ADM(FinCS) -Assistant Deputy Minister (Finance and Corporate Services)
- ADM(HR-Civ) - Assistant Deputy Minister (Human Resources-Civilian)
- ADM(HR-Mil) - Assistant Deputy Minister (Human Resources-Military)
- ADM(IE) - Assistant Deputy Minister (Infrastructure and Environment)
- ADM(IM) - Assistant Deputy Minister (Information Management)
- ADM(Mat) - Assistant Deputy Minister (Material)
- ADM(PA) - Assistant Deputy Minister (Public Affairs)
- ASD - Alternate Service Delivery
- C4ISR – Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance
- CCPS – Central Computation Pay System
- CDS – Chief of Defence Staff
- CF – Canadian Forces
- CFCS - CF Command System
- CFHS – Canadian Forces Health Services
- CRS – Chief of Review Services
- DCDS – Deputy Chief of Defence Staff
- DEM – Daily Executive Meeting
- DIN - Defence Information Network
- DM – Deputy Minister
- DMC - Defence Management Committee
- DND – Department of National Defence
- ECS - Environmental Chiefs of Staff comprising:
  - CMS – Chief Maritime Staff
  - CLS – Chief Land Staff
  - CAS – Chief Air Staff
- EPA – Effective Project Approval
- ERP – Enterprise Resource Planning
- ESP - Enterprise Service Provider
- FMAS – Financial Management and Accounting System
- FTE – Full Time Equivalent
- GTIS – Government Telecommunications and Informatics Services (part of PWGSC)
- HRM – Human Resource Management
- HRMS – Human Resource Management System (Peoplesoft)
- IM – Information Management
- IT – Information Technology
- IMSR - IM Strategic Review
- JCRB – Joint Capability Requirements Board
- KM - Knowledge Management

- LFRR – Land Force Reserve Restructure
- LTCP – Long Term Capability Plan
- MA&S - Materiel Acquisition & Support
- MCCRT - Management, Command and Control Re-engineering Team
- MND – Minister of National Defence
- MPCC – Military Police Complaints Commission
- MMC – Minister's Monitoring Committee
- NATO – North Atlantic Treaty Organization
- NCR - National Capital Region (Ottawa, Gatineau (Hull), and environs)
- NDHQ - National Defence Headquarters
- NP - National Procurement
- O&M - Operations and Maintenance
- PMA – Performance Management Agreement
- PMB – Program Management Board
- PPA – Preliminary Project Approval
- PWGSC - Public Works and Government Services Canada
- RPSR – Revised Pay System for Reserves
- SCIP – Strategic Capability Investment Plan
- SRB – Senior Review Board
- TB – Treasury Board
- VCDS – Vice Chief of Defence Staff

Annex G: Members of the Advisory Committee on Administrative Efficiency

The Committee was composed of four experts with experience in private and public sector administration, management, and restructuring.

The Chair of the Committee was Mr. Harold (Hap) Stephen, Chairman and Chief Executive Officer of Stonecrest Capital Inc, an independent financial restructuring, financing and mergers and acquisitions advisory firm.

The other Committee members were:

- Mr. Robert Winsor, President and CEO of IEC-Holden Inc, one of the oldest railway transportation equipment suppliers in Canada;
- Lieutenant-General (Retired) Fred Sutherland, a former Vice Chief of the Defence Staff and currently a member of the Senior Directing Staff of the Canadian Forces College; and
- Mr. John McLure, a Senior Associate of Hill and Knowlton Canada Limited, the owner of JDM Consulting Inc., and a former Associate Deputy Minister of National Defence.